CRITICAL REVIEW

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ERRATUM

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John Halverson

PLATO'S REPUBLIC AND OURS

The politics of Plato's Republic *has been all but universally condemned by modern liberal readers as totally and odiously inimical to democratic ideals. Plato's proposals for government by an unelected elite class of guardians, for censorship and indoctrination, for occupational restrictions, etc., are seen at best as stifling freedom and individual initiative and at worst as totalitarian. It has seldom or never been noticed, however, how much his polity resembles our own, for better or worse. American democracy, present and past, has endorsed most of the basic political principles of the* Republic. *If often only tacitly, we recognize natural inequalities among people; that some are more fit than others for some occupations, including governing; and that indoctrination and censorship are desirable in some circumstances. Most important, though little recognized outside political theory, is the fact that the United States, like most modern democracies, has a guardianship form of government, comparable to that outlined in the* Republic, *in which the electoral franchise has little significance. Making due allowance for our own ideological myths on the one hand and for Platonic whimsy on the other, it can be seen that Plato's Republic and ours are, paradoxically, much the same in both aims and means.*

In 1814 Thomas Jefferson wrote to his old friend John Adams:

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John Halverson is a fellow of Adlai E. Stevenson College, University of California, Santa Cruz, CA 95064. This essay emerged from many long and turbulent discussions with Professors Philip Kain, Carlos Noreña, and David Thomas, to whose amiable intransigence the author is much indebted.

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> I am just returned from one of my long absences, having been at my other home for five weeks past. Having more leisure there than here for reading, I amused myself with reading seriously Plato's republic. I am wrong however in calling it amusement, for it was the heaviest task-work I ever went through. . . . While wading thro' the whimsies, the puerilities, and unintelligible jargon of this work, I laid it down often to ask myself how it could have been that the world should have so long consented to give reputation to such nonsense as this?[1]

Adams concurred heartily. And so, no doubt, would most of our own college students, for whom the *Republic* is so often required reading and who are therefore its principal readers today. It is a book that offends liberal sensibilities. And not only among the young: in the 1930s and 40s it was the subject of a series of denunciations culminating in Sir Karl Popper's well-known assessment of the *Republic* as a "blueprint for totalitarianism."[2]

Of course Plato has not been without his defenders then and now, but even they concede that he was antidemocratic. Indeed it goes without saying that he was intensely hostile to the Athenian democracy of his day, which he regarded as an absurdity, but it also goes without saying that the Athenian democracy of the fourth century bears almost no resemblance to the United States or to any of the modern Western democracies. Whether he can be invoked, then, as the great opponent of democracy in its modern sense and practice is highly questionable. It seems to me that a dispassionate reading of the *Republic* reveals again and again how similar in fact his proposals are to modern political realities. Many of Plato's notions that seem at first alien and rebarbative turn out on closer examination and reflection to be familiar, if often only tacitly acknowledged, aspects of modern democracy, and the general vision he had of government by guardianship corresponds closely to our own. In exploring these correspondences in the following pages it is not my intention to *defend* either Plato or modern democracy. The numerous critics of modern democracy who deny that it is genuine democracy or even democracy at all may be right, but that is the term we use to refer to the type of government we have, whether or not it is really suitable. And it is such a type of government, I suggest, that Plato essentially envisaged.

The *Republic* seems to have been deliberately written in "large letters" to shock, provoke, and disturb its readers, just as within the dialogue Socrates by turns irritates and bemuses his interlocutors. Jefferson was not imperceptive in noting its "whimsies," of which there are indeed many. It is not written in a deadly serious, Aristotelian way, especially in its political passages. The narrative tone is often light and teasing, a quality beguiling for some, exasperating for others, for even when Socrates is making

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his proposals with a straight face, the conversational context often leaves some doubt about his intentions. There are at least two prima facie reasons for not taking the political views of the *Republic* very seriously or literally. The first is that the whole elaborate exercise in polis-making is only to reach an understanding about the nature of justice in the individual psyche, an altogether unnecessary exercise and ultimately not even very convincing. Yet its very gratuitousness is the strongest indication that Plato thought his political reflections to be significant enough to deserve such extensive exposition. Secondly, the republic creatively imagined by Socrates and his friends is after all a fantasy and thus inherently removed from serious reality. We are not left in doubt that it is a fantasy. Socrates refers to it as the polity we are "mythologizing," or "making up a story about" in speech (*hē politeia hēn muthologoumen logō*—501e). But of course most purposeful fantasy (as distinct from mere entertainment) succeeds precisely by some credible relation to the real world (Orwell, for example). Fantasy thrives, moreover, on concrete and consistent detail (of which Swift, for one, was a master). A more-or-less literal reading of such detail is necessary and appropriate for understanding the tenor of the whole. Some of Socrates' proposals, such as Guardian mate-sharing and the "noble lie," are fairly obviously tongue-in-cheek, *pour épater le bourgeois* no doubt, yet it seems reasonably clear that on the whole this imaginary Republic is the outcome of serious reflections on government. Moreover, in the rather long discussion (499–502) on the chances of such a polity ever being established in the real world, Socrates twice insists, rather emphatically, that it would be difficult but not impossible (499d, 502c). Plato may have been aware of an element of wishful thinking in this, but it does suggest that at least in his own mind he was not merely fantasizing.

His Republic is often called a "utopia," but this is misleading, for it is not represented as a perfect society. The elaborate work of imagination that comprises so much of the dialogue sets up a polis that is in fact in contrast to the ideal society Socrates first describes. That society—"true" (*alēthinē*) and "healthy" (*hugiēs*)—is rustically simple and natural, satisfying basic needs which require a division of labor but apparently no government. To Glaucon, however, this looks like a "city of pigs," and he urges Socrates to consider a more realistic society, one which Socrates describes with more than a hint of sarcasm as "luxurious" and "fevered," where the citizens "abandon themselves to the unlimited acquisition of goods" (372–3). Thus the task to which Socrates sets himself is to find the best, that is, the most just form of government, for a very imperfect society.

The goal of this polity is explicitly the *eudaimonia*, the well-being and happiness, of the whole state: the greatest good for the greatest number, not for the few or for a single class (420). The *eudaimonia* of the state is the

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collective *eudaimonia* of its people, and it is determined by and large by the people's own perceptions of what is good for them, not by Plato's personal, somewhat austere vision of the ideal life. It is clearly not his purpose to prescribe such an ideal for the populace, but rather to devise means by which their desires may be fulfilled in a stable society. The way to achieve this goal is, most generally, by the rule of wisdom: governance in the hands of the wisest men and women. To the extent that the society is rationally governed, it will be just and harmonious.

Leadership

Such an ideal is as much ours as it is Plato's. We expect, or at least hope, that decision makers in government will perform their tasks intelligently and with the good of the whole in mind. We may not always succeed in electing the wisest people to public office, but the claim and appearance of intelligence are a sine qua non for all political candidates, whether they really have it or not (no one runs for office on the charms of his or her stupidity). But how to ensure intelligent governance? It is here that the first and greatest apparent gap emerges between Plato's dream and present realities, for Plato proposes extravagant and unrealistic measures to ensure an intelligent ruling body. His potential rulers—the "Guardians"—must not only undergo a very long and arduous course of formal education but are also to be denied both property and a normal family life.

But perhaps the gap is not quite so great as it seems. In fact, Julia Annas has suggested that "the country whose educational system comes closest to the Platonic ideal . . . is America."[3] Up to about the age of 18, potential Guardians are educated in a broad cultural curriculum neither very systematic nor deadly serious (Plato would like to see these years of education imbued with a spirit of play—537), which sounds much like our own primary and secondary schooling. The next two years, for those who survive the screening that goes on at every step, are given over to physical training, including military training. Again nothing strange here: "physical education" is a standard requirement of our schools, and compulsory military service exists in many democratic societies. From ages 20 to 30, their education is to resume with a more advanced, systematic, and rigorous program intended both to inform and to sharpen their thinking. Ten years may seem a long time to pursue a higher education, but it is stretched out by practical training in administration. From 30 to 35 the future Guardians study "dialectics," the art of critical thinking and logical argument. At this point, their formal education is completed, and they embark on fifteen years of public service to give them the practical experience necessary for governing the state, a job for which they are only now

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eligible at the age of 50. Now is all of this so different from what we have come to expect in our political and civil-service office holders? True, we don't expect them to hold Ph.D.s, but a BA is practically a prerequisite, and advanced degrees, particularly in law, are pretty much the norm. For example, in 1972 (and there is no reason to think the figures have changed much since) 85 percent of U.S. congressmen were college graduates (against 12 percent of the general population) and 60 percent had law degrees.[4] Extensive experience in public service is also a common expectation for holders of high office, and their average age is certainly consistent with Plato's recommendations (about 52 for congressmen). Universities do not offer degrees in dialectics; still, critical thinking, careful reflection, and cogent argumentation are abilities honed in most courses of higher education, especially in legal education and training, and they are abilities widely considered fundamental for leadership. So on the whole Plato's basic requirements are fairly consistent with modern expectations. In these respects, then, the gap has all but closed. Not, however, with respect to marriage, family, and property.

To preserve his Guardians from nepotism and the distractions of domesticity, Plato would deny them a normal family life, allowing only an annual Guardian get-together for the purposes of procreation. Mates and children would be held in common, no children knowing who their actual parents were, nor parents their children. To eliminate the temptations of wealth, the Guardians would be allowed no property of their own, their minimal requirements being provided by the people. Dedicated to the life of the mind on the one hand and to the public welfare on the other, they would neither need nor want anything beyond the basic necessities. Yet their lives need not be thought of as rigidly ascetic: very simple comfort is evidently what Plato had in mind, enough, but no more, to pursue their calling without mundane distractions. The scheme is pretty outlandish, to be sure—and recognized as such: Socrates allows that his thoughts are "on holiday" (*heortasai*—458a). Indeed, we should probably think of these proposals in the letters-writ-large spirit of much of the dialogue: a quasi-mythic exaggeration designed to shock us into reflection on the principles involved. But making allowances for Platonic hyperbole, the principles are familiar, and a thousand-year history of celibacy and modest living in the Roman Catholic priesthood shows that such a life in persons of authority is not beyond human capabilities. Today, of course, neither celibacy nor penury is required of our politicians, yet the Platonic principles, if quite moderated, are still much a part of our expectations of official comportment. Many a political career has foundered on sexual and financial peccadilloes; even a reputation for high living is hardly tolerable. We generally prefer that our statesmen lead reasonably sober and virtuous

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lives, avoid favoritism, and resist the temptations of money, sex and power. Such expectations have been especially evident in recent years.

Such details aside, the overriding assumption of Plato's idea of guardianship is that there are others who really know better than we what is in our best interest and can tell us what to do. This assumption seems to be particularly abhorrent to many. Yet the principle is deeply embedded in the traditions of Western democracies and is accepted daily with little protest. Modern life obliges us with great frequency to entrust our plumbing, our automobiles, our teeth, our legal affairs, our children's education, our safety, even sometimes our lives and souls to those with superior knowledge. One of Plato's favorite examples is medicine, an infinitely more telling one since his time because of the prodigious advance of medical science. Often and willingly we put ourselves in the hands of our doctors, entrusting our lives to their expertise, accepting and counting on their knowledge of what is good for us. Nor is it just a matter of technological expertise; many people accept spiritual and moral direction from religious authorities and psychoanalysts on the same basis of superior knowledge.

But politics, some think, is a special, perhaps unique case. Some say there is not nor ever can be a *technē* of governance comparable to that of the physician, because there is no identifiable corpus of knowledge to be mastered or certified. Whether or not this really is true (and I will return to the question in a moment), most people evidently do not think so. It is a very common attitude that, as Eisenhower once put it so well, "the bosses know best." In various forms of expression, some more sophisticated, the sentiment is commonplace, particularly in respect to complex and recondite matters of national policy. Many—perhaps most—ordinary citizens seem content to leave public matters to public officials and governance to governors on the presumption of their greater knowledge and expertise. And there are good reasons for such an attitude. Even those who make the effort to keep informed on political issues and exercise their vote responsibly are able to form sound judgments on relatively few matters; and participation in the democratic process is to a great extent limited to voting for a representative who, it is hoped, will be more thoroughly informed and will exercise good judgment. Although most of us may believe that we *could*, if we had the time and the resources, make political decisions as well as our officials and representatives, or even better than they do, nevertheless under normal circumstances, we suppose that they are in fact in a much better position to make such decisions. In other words, we all suppose that they do have expertise, or should have.

Is there a *technē* of governance? Is there a corpus of knowledge that can be taught and learned? At least in some limited sense, certainly at the

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procedural level there is. For instance, legislative, judicial, and administrative procedures, constitutional parameters, and the like comprise a necessary body of knowledge. Less definite, but still teachable to some extent, are various managerial strategies. However, when it comes to large ethical issues, truly there is no definable science of decision making. When Truman had to decide whether to use the atom bomb, he had no manual or code in which he could look up the answer. He had to rely on his own thinking, principles, and experience, and on the advice of others. But no one understood the limits of expertise better than Plato. It is the reason for the long training of the Guardians, which is not in the minutiae of administration or "management science," but above all in critical, reflective thinking, which he calls dialectics. And it is only those who have proved many times over their ability to think and act intelligently who can become Guardians. Plato knows that you can't teach people to think, but he believes rightly that natural gifts of intelligence can be honed, refined, and augmented by education. In this sense, then, there can indeed be a political *technē*.

Concerning the desiderata of leadership, there seems to be little fundamental difference between Plato and us. But what about the society he envisages? Can we bring ourselves to look approvingly on an authoritarian, regimented, totally controlled, censored, indoctrinated, class-ruled, unfree, inegalitarian—in short, totalitarian—society, even granting its good intentions? Is this a society in which we could imagine ourselves living with any degree of happiness? Would it not rather be miserably stifling? Would not our cherished individuality and our freedoms be lost altogether? And our even more cherished opportunities "to get ahead"? In such ways the *Republic* is commonly perceived, queried, and condemned. But are they accurate perceptions? And to the extent that they might be accurate, does the *Republic* conflict with the realities of democracy—or merely the myths?

Class and Caste

Our doubts often begin with Plato's one-man-one-job principle. For him a harmonious society depends on individuals sticking to the work they are best qualified to do—a matter to be decided by others. This is regimentation, we say, the stifling of ambition and of the opportunity to improve one's lot. But are we not dealing once again with a fairly ordinary fact of life? Most people seem to settle into lifetime occupations. Some people take longer than others to find the right occupation and some find more satisfaction in their work than others, but a settled occupation is the norm. It is a reasonable norm, perhaps even a "natural" one. Our abilities, tem-

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peraments, education, experience and opportunities tend to guide us to an appropriate niche in the economy. True, no authority assigns it to us, but, however indirectly, society does. And the more experience and skill accumulate in a vocation, the better the individual is likely to serve society and be served.

In a democracy we tend not to talk much about inherent inequalities among individuals, though the fact is universally, if quietly, acknowledged. There is also the myth that if you try hard enough, you can be just about anything you want to be. But there are not only social and economic but physical, intellectual and temperamental constraints on our aspirations; and talent, natural gifts, inherent capability seem to be real things that, as we say, we either have or don't have. Having no reason to skirt the issue, Plato openly recognizes the diversity of human abilities and incorporates the fact directly into the fabric of his society, as we do indirectly. On the other hand, there is nothing in Plato's design that would prevent avocations. The shoemaker would be perfectly free to play the violin in his leisure time if he wished. Plato merely forbids pursuing both as professions, just as circumstantial realities do in our own world.

Plato has been accused of setting up a caste system, in which families are legally or traditionally tied to the same occupation from generation to generation, as they are even now in some traditional societies. But this cannot have been his intention. In his world it was normal for children to follow their parents' occupation, for they learned it at home in the normal course of their upbringing; Plato was only making a natural assumption about this aspect of the economy, suggesting no legal bondage to a trade. In fact he was evidently not *very* concerned even about a person changing occupations or trying to engage in more than one. It is not a good idea, but if a cobbler should try to become a carpenter or should try to be both at once, Plato foresees no great harm coming to the state (434a). What does worry him is that anyone should try to step out of the class for which he is fitted "by nature," that is, an artisan taking on the job of a soldier, or a soldier that of a Guardian. This would be the "ruin of the state" (434b). Up to this point the occupational restrictions of the Republic were neither in principle nor in practice significantly different from those we are used to in a democratic society. But class barriers we cannot accept. However, although the *Republic*'s class structure is essential to the whole system, Plato's concept of social class is totally different from ours. It is defined exclusively by fitness for an occupation. Thus his restrictions have nothing to do with "class" as we usually understand the word. And we certainly accept the principle that some people are fit to govern and some are not, and that is essentially all Plato is talking about.

It may still be said that because of Plato's beliefs about heredity, his

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Republic would in practice maintain a class structure based on genealogy. And this is indeed very probably what he anticipated. He took a straightforward stockbreeder's view of heredity, believing that human as well as livestock traits are inherited and can be bred; he was therefore anxious that interclass breeding should be avoided. But with a stockbreeder's common sense he did allow for exceptions, knowing that offspring do not always turn out as expected. Thus his system provides that promising children from the common class will be brought up as potential Guardians and conversely that unpromising Guardian offspring will not. (He does not tell us how promise will be determined, but the idea that it can be determined, by testing and observation, is one well known to us in our own schools.) His aim is to discover natural fitness, wherever it may occur, not to create or perpetuate a blood aristocracy. He was of the same mind as Adams and Jefferson, who believed that "there is a natural aristocracy among men" based on virtue and talent and that it is "the most precious gift of nature for the instruction, the trusts, and government of society."[5] For all his animadversions on the *Republic*, Jefferson's own visionary scheme for education sounds remarkably like Plato's, both in procedure and purpose. His proposals for the state of Virginia included elementary education for all children and a rigorous system for selecting those who were to continue.

> By this means twenty of the best geniuses will be raked from the rubbish annually, and be instructed, at the public expense, so far as the grammar schools go. At the end of six years instruction one half are to be discontinued . . . and the other half, who are to be chosen for the superiority of their parts and disposition, are to be sent and continued three years in the study of such sciences as they shall chuse. . . . The ultimate result of the whole scheme of education would be the teaching of all the children of the state reading, writing, and common arithmetic: turning out ten annually of superior genius, well taught in Greek, Latin, geography, and the higher branches of arithmetic: turning out ten others annually, of still superior parts, who, to those branches of learning, shall have added such of the sciences as their genius shall have led them to. . . . The general objects of this law are to provide an education adapted to the years, to the capacity, and the condition of every one, and directed to their freedom and happiness.[6]

In some basic respects Plato seems to have been a Jeffersonian! His general aim of finding a place in society most suitable to every individual's abilities and therefore fostering personal fulfillment is surely a modern, democratic ideal. In sum, then, the social order of the *Republic* is not a class society at all, as we understand the term; the Platonic program of discovering and nurturing occupational fitness, including fitness to govern, is a democratic aspiration.

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The Republic is not intended to be a democracy, but neither is it a dictatorship. It is ruled not by the whim of one person—Plato hates tyranny even more than democracy—but by a council. And the council is not a junta or politburo motivated by power and maintained by power. The Guardians do have power, but it is not something they desire or seek; their motivation is solely to maintain justice, their decisions reached not by politicking but by rational discussion. Of course even a council of the wise can be oppressive, especially when it is in direct command of a military force, and it is sometimes hastily concluded that the Republic must be a police state. Plato recognizes the need for a police force, as does even the most libertarian modern state, but clearly he does not envision it as exercising arbitrary and unlimited power. In fact he is explicitly concerned that it should not: it is to be a body of "kindly helpers," not "savage masters" (416b). And the principal function of this force of auxiliaries is to fight the Republic's wars, not to bully its citizens. If some internal coercion is unavoidable, as it is in any society, Plato evidently expects it to be minimal. The great means of social control are to be reason, persuasion, education, and indoctrination. At least physically, then, the regime of the *Republic*, far from oppressive, is intended to be benign.

Oppression

Nevertheless, there are elements of the great scheme that suggest an oppressive governmental presence: if not the strong arm, then the searching eye of Big Brother. But it is hard to see that there is any more of that presence in the Republic than in modern bureaucratic democracy. It takes little reflection to realize what a vast network of laws, regulations, and official overseeing our daily lives are entangled in. We can do almost nothing, publicly or privately, that is not in some way subject to governmental control. We often grumble about it and are sometimes maddened (I could rest my case on the initials IRS alone), but on the whole, we do not seem to think our freedom seriously threatened by these myriad constraints and obligations, and in comparison, the laws of the Republic seem quite negligible. Economically, for instance, about the only notable constraint mentioned is the prohibition of both poverty and wealth (422a), a constraint also frequently exercised by democracies, though in greatly varying degrees, by means of welfare legislation and taxation. Just how much wealth would be tolerated in the Republic is hard to say, but since it has been envisaged from the beginning as a "high-living city" (*truphōsan polin*—372e), presumably quite a bit. On the whole, *laissez-faire* seems to be the general policy.

Two other policies of the *Republic* invariably offend the liberal con-

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science: censorship and indoctrination. Yet both have always been common in democratic countries. Freedom from censorship has advanced slowly and uneasily; there are still a great many people who are not only willing but eager to impose censorship, and in some situations, even the most liberal minded do not find it incompatible with democratic ideals—in wartime, for instance, or in the case of child pornography. What kind of censorship does Plato have in mind? For one thing he indicates no interest in censoring erotica of any kind (an issue which for many years has embroiled Americans especially), nor religious views, nor even political opinions. What he is most concerned about is truth. Homer must go, however regretfully, because he lies about the gods, and people believe his lies. There seems to be no prohibition of political discussion so long as it is conducted with respect for truth. Whether Plato's policy of censorship is the wisest approach to the problems he identifies is debatable. Most of us would perhaps prefer the free-forum approach. Falsehoods should be openly countered rather than precensored. Let mendacity and honesty fight it out in public—truth will emerge. So Milton and Mill eloquently argued, and so the liberal conscience believes—at least in general. But suppose it were a question of manifest falsehoods in public-school textbooks? This is a close analogy, for Homer was the basic school text in Plato's day. We would not, I think, hesitate to demand the exclusion of such falsehoods, and would not call it censorship. But of course truth and falsehood are often ambiguous, and Plato's lawgivers are not intractable: if they can be persuaded that the lies of the poets are either not lies or not inimical to the common good, they would not be beyond revising their prohibitions (607c–608a). Plato is also concerned with the moral effects of art, particularly on the character of impressionable youth. This is a familiar and difficult problem in our own society, and many look to some sort of censorship as the favored solution, maybe the only possible one. Though we may strongly disapprove of censorship in the abstract, in practice we often recognize its necessity and desirability, so our position does not seem markedly different from Plato's.

"Indoctrination" is another word we dislike, but by another name it is all right to "inculcate" moral standards and civic virtues in the young, and many would also include patriotism and religious values. In one way or another most children are rather thoroughly indoctrinated with the prevailing ideology, political and ethical, being taught to prize freedom, individuality, opportunity, ambition, effort, and all the rest. Even so, many people are concerned that there is not nearly enough indoctrination of the young, especially in moral values, and are continually pressing the schools to do more of it. The citizens of the Republic are to be indoctrinated with somewhat different ideals—the value of a harmonious society, of doing

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one's own task, of obedience to the wisdom of the Guardians, etc.—but evidently it is not indoctrination per se that is objectionable, since we so willingly accept and advocate it ourselves. Nor does it come only from traditional and conservative sources, as present demands for "political correctness" well testify.

Let us pause for a moment to consider the infamous "Noble Lie" (414–15), of which so much has been made by Plato's critics. Socrates suggests that an attempt should be made to persuade the people of the Republic that they are all brothers and sisters, the children of Mother Earth, who has delivered and nurtured them and whom they should care for in turn (is Plato our first ecologist?). But though siblings, some have earth's gold in them and are therefore most fit to rule, some have silver and so are fit to be helper-soldiers, and some have iron and brass, the farmers and other workers. Socrates calls this a *muthos* (story, tale, myth) and a *pseudos* (fabrication, lie), and his exaggerated trepidation in making the suggestion indicates it is tongue-in-cheek. In fact, the "myth of the metals" is not a lie at all but a "harmless allegory," as Cornford has called it,[7] a mythical, just-so-story version of Plato's conviction that people by nature have different capabilities. It is also a tale that emphasizes brotherhood, a fact often overlooked. From this minor and half-facetious episode, Popper preposterously derived a giant propaganda machine in the manner of Hitler's Germany and Stalin's Russia. Although Plato would allow the Guardians to lie to the people if necessary for "medicinal" purposes (389b), that is, if it is for the benefit of society, he has no program for systematic deception of the people in his scheme. In any event, modern democracies are hardly strangers to either governmental propaganda or governmental deception, the latter often justified as necessary for reasons of national interest or security. And ideological myths are a major part of the fabric of modern life.

Freedom

Perhaps the worst defect of the Republic in liberal eyes is its lack of freedom. But what freedoms do we now enjoy that would be lacking in the Republic? Freedom of speech is frequently cited, but this is by no means an absolute freedom in our democracies, and the restrictions in the Republic do not appear to be any greater. There is no reason to suppose that the citizens of the Republic are any less free to voice their opinions than we are, subject to similar penalties for deliberate misrepresentation and inciting to riot.

We inhabitants of modern democracies cherish not only freedom of speech but the freedom to live our lives as we wish to. But everything

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depends, for us as for the citizens of the Republic, on *what* we wish. If our wishes are potentially harmful to others, we are legally prohibited from living them out. If our wishes are incompatible with our abilities or opportunities, they are stymied by circumstance. Other restrictions arise from the lack of means or power, due chiefly to poverty, and lack of understanding of possible choices due to poor education or to cultural "brainwashing," deliberate or traditional. Such limitations seem to be no greater in Plato's Republic than in ours, and are perhaps less.

Poverty, for instance, is expressly ruled out; freedom from want is a basic feature of the Republic. Education is more problematic. Plato does not tell us explicitly what kind of education, if any, he has in mind for the masses. It has been thought that the discovery of potential Guardians in the common class could only be made in the course of a common education, a plausible but not necessary inference.[8] It is also a reasonable inference from remarks in Book IX about "fostering" (*therapeusontes*) the rational faculty in children, where the context is clearly the whole city (590d-591a). Not to foster intelligence, wherever it can be found, would in any case be very unPlatonic given Plato's virtual obsession with reason and education. There is, then, a strong likelihood that Plato had in mind some form of universal primary education, a likelihood further strengthened by the fact that in his last dialogue, the *Laws*, he explicitly made basic education compulsory for all children of both sexes (*Laws* VII, 804).

The manipulation of desire can more certainly be ruled out of the Republic, for the "pleonectic" principle it accepts for the masses is no ideal of Plato's, and there is no hint of molding the public to his own very different spiritual standards. Plato takes the desires of the people as he finds them. In his view the masses are dominated by appetite and *pleonexia*, the "more-and-more" syndrome, and the Republic is constructed, on the principle of *eudaimonia*, to maximize the satisfaction of their natural desires. Though some imagine the Republic as a bleak, puritanical society, this would be inconsistent with Plato's basic premises. The reason for this misapprehension is undoubtedly that Plato is so much more interested in his Guardians than in the masses and talks so much more about them that we unconsciously extend his austere plans for their lives to the whole population. But this is unwarranted. He is content to let the masses go their "natural" ways, expecting only the temperance and restraint necessary for a functioning society. They are as free to pursue happiness in their own largely materialist way as modern consumers. Plato is said to take a very low view of the masses, and there may be some truth in this, but he spends far less time deploring the "acquisitive society" than our modern pundits do. He does not think people are mindless beasts, mere slaves to instincts and appetites. It is a premise of his psychology that everyone is

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endowed with intelligence to one degree or another, and that all people, except the occasional psychopath, are capable of being guided by reason.

It appears, then, that the great majority of the Republic's citizens would enjoy much the same economic and intellectual freedoms that we do, with comparable limitations. The one freedom that they would not have—and this may be the most fundamental source of antipathy to the *Republic*—is political freedom, especially the right to vote. Now, considering only the United States, would most Americans really miss the opportunity of democratic participation in elections? It is hard to avoid the uncongenial conclusion that they would not. The most obvious evidence is that so many people do not vote (and are no less free than those who do). A good turnout for national elections is a little over 50 percent of eligible voters, and it is much less for other elections. Only when issues or candidates are unusually alarming does participation rise. To most people most of the time, pursuing their ordinary lives, it seems to make little difference who is in office or which party. (Nor should it, judging by the inevitable post-election appeals to unity, suggesting as they do that, after all, differences are not so great that we cannot move forward together.) Even before elections, the range of choice we have among potential candidates for office, despite the good intentions of the primary system, is very limited, and is drawn from a pool in which we have hardly any choice at all. When an electorate is contented with its representatives, elections can become almost pro forma. When it is discontented, cynicism and resignation often reign. Consider the quality of election campaigns—the packaging and selling of candidates, the harassing of television blitzes, the nastiness, hysteria, hype, dishonesty, dirty tricks, wheeling and dealing, bombast, and hypocrisy that have become such an integral part of the democratic electoral process, not to mention the enormous waste of money. Would any of this be greatly missed? Plato's vision of a polity without politics or politicians is not altogether unattractive. However, the point is that, for whatever reasons, a great many Americans voluntarily waive their freedom to vote and many more probably exercise the right without conviction, so that most are *de facto* in much the same position as the citizens of the Republic.

Though freedom as such is not an issue in the forefront of Plato's concerns, the structure of his Republic implies a number of familiar democratic ideals of liberty. It is clear, for example, that his vision of a just polity excludes physical coercion as far as social stability allows. Similarly, the *Republic* does not seem to contemplate any psychologically coercive manipulation of desire (except, in a way, for the Guardians), that is, any attempt to limit the range and possibilities of desire, and therefore choice, in the totalitarian manner of indoctrination. Freedom from fear and want

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are clearly implied. The disabling effects of ignorance and poverty seem, if anything, considerably less a likelihood in his scheme than in our reality. Positive enablement, the capability of achieving desires, appears to be limited mostly by nature rather than society.

Consent of the governed is taken for granted in the Republic, where rulers and ruled share the same belief (*autē doxa*—431e) about who should govern; their agreement is described as a harmony between them (*xumphōnia*—432b), a like-mindedness (*homodoxia*—433c). The assumption is that the citizens understand their own limitations in the matter of governance and recognize the superior abilities of the Guardians. Now according to the parable of the shipmaster (488b ff.), the wise governor should not be expected to ask to be governor—just the opposite: he should be asked. On the other hand, if the Republic is to be established at all, it is assumed that the people must be persuaded that such a ruler is necessary (501–2). I suspect that in the first instance we have a trace of Platonic *hauteur*, in the second a more realistic view. Plato's system provides no mechanisms for confirmation of trust. Though he seems to recognize the importance, even the necessity, of popular trust, he is characteristically ambiguous, or silent, about how consent might be assessed, no doubt swayed by the programmed perfection of his Guardians that should require no confirmation. Here again the modern democracies have prudently and practically augmented his program with such mechanisms as referenda and votes of confidence. Consent of the governed, nevertheless, remains fundamental. Without some such *homodoxia*, Plato's Republic is neither viable nor possible.

Plato uses the word *doulos*, "slave" or "servant," to describe the relationship of the masses to the rulers, a word that has considerably disturbed even relatively sympathetic critics, who infer a fundamental denial of human dignity and self-respect to the common people. Thus for Gregory Vlastos, the absence of the "principle of equal human dignity" in the *Republic* means the absence of human rights. He wonders how Plato could be led "to wipe out every vestige of human, as distinct from functional, rights . . . stripping his fellow-townsmen not only of those rights that answered to the greatest achievement of their corporate life—participatory democracy—but even of their individual right to moral autonomy. . . ."[9] Yet if participatory democracy and moral autonomy are in fact basic human rights (philosophically very problematic), it can at least be said that the majority of Americans do not exercise them, and without any evident loss of self-esteem. And if we should want to argue that they are less than authentic human beings for that reason, we would surely be taking an even more paternalistic attitude than Plato's. What Vlastos refers to as "functional rights" are, I suppose, the kind of concrete rights that are

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embodied in our Bill of Rights, which can perhaps be generalized as civic justice; these he seems to acknowledge as existing in the *Republic*.

Annas takes another but similar tack, arguing that "it is not in human nature not to resent being in another's power" and that the "capacity for self-respect and autonomy" which all people have "is lost if they are so totally in someone else's power as to be their 'slave.' "[10] Appeals to "human nature" are seldom very satisfying, but in any case it is simply not true that a slave *cannot* have self-respect. But of course, as Annas understands, the use of the word *doulos* is obviously not meant to refer literally to chattel slavery—the people are in no sense the property of the Guardians to do with as they please; the word is rather a provocative metaphor for subordination to the rule of reason.

Now when we allow ourselves to be guided by another person's superior knowledge, expertise or wisdom, as we very often do, are resentment and loss of self-respect necessarily entailed? If a policeman orders me away from the scene of an accident, if my dean tells me I have to teach an eight-o'clock class, does my acquiescence mean loss of self-respect? Even in the most extreme circumstances of being totally in other people's power, such as political hostages have had to endure, the individual's sense of self-respect and self-worth often survives intact.

These arguments seem to me excessively strained, and I conclude that on both philosophical and practical levels, there is little significant difference between Plato's Republic and ours in respect to freedom.

Guardianship

This is not to deny, however, the charge of paternalism and authoritarianism in Plato. The Republic is to be guided, and ruled, by an enlightened elite, which sounds pretty un-American. But is it? In his recent magisterial book *Democracy and Its Critics*, Robert Dahl names "guardianship" as the most formidable rival political system to "democracy"—formidable because of its apparent cogency—and cites Plato as its chief theoretician.[11] To an *ideal* of democracy that includes maximal citizen participation, it is no doubt legitimate to contrast guardianship, with its rule by the enlightened few, but it seems clear that *actual* American governance is firmly based on the guardianship principle, and indeed was so intended by the Founders. Madison considered that the representatives of the people should be "a chosen body of citizens, whose wisdom may best discern the true interest of the country"; it could even happen "that the public voice pronounced by the representatives of the people will be more consonant to the public good than if pronounced by the people themselves"[12]—a somewhat convoluted but unmistakable way of suggesting the superiority

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of guardian judgment over popular judgment. Even the more radical Jefferson recognized a "natural aristocracy," as we have seen, and went on to ask, "May we not even say that that form of government is best which provides the most effectually for a pure selection of these natural aristoi into the offices of government?"[13] Another great advocate of representative democracy, John Stuart Mill, thought that parliament should consist of "the very elite of the country."[14] And modern political scholars agree that "conventional" (as distinct from "radical") democratic theory entails "the expectation that the representatives will be wiser and more knowledgeable than the people who elect them."[15] On this commonly accepted and surely correct view of the nature of representative democracy, the people's "representatives" are simply elected guardians of the republic. Like Plato's Guardians they have, while in office, full political power, which it is expected, or hoped, they will exercise wisely for the common good. For the most part, they exercise "trustee" rather than "delegate" functions.[16]

Of course, it will be said that the very fact of election and with it direct accountability to the people make the comparison superficial. But this constraint may be more apparent than real. First, let us consider who our guardians are and how many there are. In the United States, 435 congressmen, 100 senators, one president, and nine (unelected) Supreme Court justices hold ultimate national-level power and responsibility for governing 252 million people. The collective ruling body thus constitutes a little over two-ten-thousandths of one percent of the population, a microscopic elite by any standard. Dahl seems impressed that the Renaissance republic of Venice, his most positive historical example of a guardianship system, elevated 2 percent of the population to its governing body—but compared to our system Venice virtually had mob rule. The same would have to be said for Plato's imaginary polis.

Do our guardians in any sense constitute a ruling "class" like Plato's? Though it is an occasional pastime of some suspicious political analysts to ferret out webs of personal relationships within the "power elite," the results are unremarkable. Family political dynasties are certainly rare. On the other hand, to an appreciable degree homogeneous social, economic, and educational backgrounds are well attested. To be white, male, middle class, middle aged, Christian and college-educated, often with a law degree, may not be absolute prerequisites for public office, but they are the norm. In short, there are enough common characteristics, which are also distinctively different from those of the population at large, to define politicians as a class. They are not, to be sure, born into their class; they are rather recruited into it. But who chooses them? Not the "people" surely, but the "party." I would submit that for most citizens both the process of

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choosing candidates and the parties themselves are mysteries. Candidates simply appear on the scene; the people have no role in their selection. It is only at the primaries that the people have an opportunity to participate directly in the process, and it is an opportunity of which few avail themselves: participation in primary elections often runs as low as fifteen to twenty percent of eligible voters.[17] In a word, the "people" have virtually nothing to do with candidate selection. It is rather the work of party politicians, who constitute a guardian class and determine who shall belong to it: a self-selecting and self-perpetuating class—in this important respect indistinguishable from Plato's Guardians.

Still, *our* guardians are "accountable to the people," are they not? If not made, at least they can be unmade by the people at the next election, whereas Plato's Guardians are accountable only to their fellow Guardians. No doubt. But it would seem that most actual disciplining of our representatives is at the peer level, either by formal means such as censure and impeachment, or by collegial pressure. Resignations and withdrawals "for the good of the party" or "for the good of the nation" have been fairly frequent occurrences in recent years. Outright criminal behavior is subject to guardian-made law. Accountability to the people does not seem to be much involved in any cases of putative misconduct. The prospect of the next election is supposed to be a powerful influence on political deportment, but this is a dogma open to question. Aside from the fact that it does not pertain to Supreme Court justices, second-term presidents, or resigning legislators, it is questionable whether many significant decisions are made on such a basis. Consider the landmark civil rights acts of the 1960s, for instance. Is it credible that they were proposed and mandated by legislators afraid of being voted out if they did otherwise? Is it not much more likely that they were persuaded by events, by their consciences, and by the voices of people who were neither constituents nor even voters? What seems to be crucial for good government in our system is not elections, but whether the guardians are themselves honest, intelligent, morally principled, and open to persuasion. Popular election guarantees none of these qualities. For Plato, wise rulers dedicated to the welfare of the people, including the temperate satisfaction of their desires, would perforce be sympathetic listeners to the voices of the people. In general we seem to have similar expectations.

To the extent that our guardians do have the positive qualities mentioned above, it is, I would surmise, because the job attracts the most suitable people, people who enjoy the challenges of political leadership and political problems and derive personal satisfaction from meeting them. Politicians are born as well as made. For the truly venal and the truly power-hungry, politics has far less attraction and holds fewer possi-

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bilities than, say, the worlds of business or crime; political power has to be shared with too many others, and the perquisites, though not inconsiderable, are far from awesome. In this matter Plato seems to have missed the target. His Guardians, it will be remembered, do not want their job; they would rather philosophize. His basic rationale was sound: conscientious people without personal stakes or personal ambitions would be most likely to be guided only by disinterested reason. He overlooked the possibility that some people could have the (rational) desire to govern disinterestedly, and do it well—unless his argument is yet another attempt to shock.

The greatest stumbling block in Plato's scheme, of which he was obviously very conscious, was the problem of establishing a guardian class and persuading the people that it should rule. The Western democracies seem to have solved that problem with their own "noble lie": the myth that the guardians are just like everyone else, that anyone can be one, that they are chosen by the people, and that popular elections and an extended franchise prove that the people really govern themselves. There is just enough substance and plausibility in this benign myth to have sustained it for two centuries in the political ideologies of Western nations, but not enough—or so it would seem—to persuade the "apathetic voter."

The American two-party system has generated at least the appearance of two sets of guardians with strong basic differences, and thus at least the appearance of electoral choice. These conflicting points of view are probably genuine enough to some degree, despite often-heard Tweedledee-Tweedledum charges, and political conflict is often considered a necessary and healthy feature of the system. Would political debate and conflict be permissible in the Republic? Plato says nothing about it, but it is a good guess that the answer is yes, simply because of the dialectical principle that so completely permeates Platonic thought; there is no dialectic without different points of view. It is easy to imagine that one of the principal occupations of the Guardians would in fact be debating public issues among themselves, as our own guardians do. In either case, however, it is the guardians alone who make the decisions, the guardian class alone that rules. Unlike the citizens of Plato's Republic, we can indeed unseat our guardians, but we can only do so by electing other persons preselected from and by the same class.

Whether a political system of guardianship is good or bad is a subject of long controversy. Theorists from Pareto to Schumpeter have regarded rule by elites as not only inevitable in complex societies but desirable, and consistent with democratic ideals. Others deny that such a system can be democratic in any meaningful sense since it is simply not rule by the people. But however one may view it, this is the kind of system we have,

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in which true participatory democracy in any strong sense can hardly be more than a dream.[18]

The city Plato creates, luxurious and acquisitive, is not a utopia. When Socrates calls it a *kallipolis*—only once—he is talking to Glaucon and refers to it, with palpable irony, as "*your* fine city" (*to kallipolei soi*—527c). Plato takes it for granted that most people are by nature materially oriented; realistically, then, the populace of the Republic will be what we would now call a consumer society. Though he might wish that people were otherwise, it is certainly not a society that he condemns. The question was, and is, how such a society can be governed with justice for all, that is, without collapsing into two cities of the rich and poor, always at war with each other (551d) and therefore prone to self-destruction. In devising such a government, Plato had to take into account the same kind of things that modern legislators must in practice and political scientists in theory, such as the balance between desires and interests and between individual freedoms and the stability of the state. He had also to consider questions of civic moral character and with it complex problems of censorship, indoctrination, and education. His conclusions, making some allowance for irony and hyperbole, are remarkably like the historical outcomes of democratic thought and experiment, of which perhaps the most significant is the guardian concept of government.

What may we conclude? That democratic freedom is largely an illusion, or that the authoritarianism of the Republic is an illusion? Neither, I should think. What seems to emerge is that modern democracy is a good deal more authoritarian than it is popularly, or mythically, represented to be, and that the Republic is far more democratic than is usually acknowledged. For both polities the pursuit of happiness is a fundamental principle; at the same time, both recognize that personal liberty is subject to many limitations. The chief difference is that in modern democracy real restraints tend to hide behind ideological myths and slogans, whereas Plato is open about them, just as the veneer of democratic representation tends to conceal the reality of government by guardians. If it seems paradoxical to suggest that Plato drew the blueprint for modern democracy, that may be only because modern democracy is itself so paradoxical.

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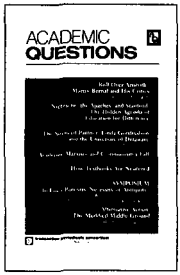

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Robert Higgs

ORIGINS OF THE CORPORATE LIBERAL STATE

Martin J. Sklar's The Corporate Reconstruction of American Capitalism, *a revisionist account of the early antitrust laws in particular and the political economy of the Progressive Era in general, offers a wealth of detailed research and a particularly valuable reinterpretation of the jurisprudence of antitrust law during the period 1890–1911. A neo-Marxist framework of analysis, however, detracts from the work and causes Sklar to misread the valuable evidence he has compiled. By misinterpreting standard economic models of market structure, he incorrectly concludes that the large corporations could "regulate" the market if the government did not do so. By viewing the political economy as a comprehensively and tightly integrated structure of technologies, property rights, political powers, ideology, and social classes, he fails to give due weight to the diversity of influential interests contending within the political economy, especially within the "capitalist class," and shaping its historical transformation.*

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Robert Higgs, Thomas F. Gleed Professor, Albers School of Business and Economics, Seattle University, Seattle, WA 98122, telephone (206) 296-5720, telefax (206) 296-5795, is the author of *The Transformation of the American Economy, 1865–1914* (Wiley, 1971), *Competition and Coercion* (Cambridge University Press, 1977), and *Crisis and Leviathan* (Oxford University Press, 1987), and the editor of *Emergence of the Modern Political Economy* (JAI Press, 1985) and *Arms, Politics, and the Economy* (Holmes & Meier, 1990). He thanks Leonard Liggio, Murray Rothbard, Andrew Rutten, and an anonymous referee for comments on an earlier draft and the editor for his excellent work.

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Between Grover Cleveland's second term as president and Woodrow Wilson's first, the beliefs about the proper relationship between government and economy held by American opinion leaders and political activists underwent a radical shift. As late as the mid-1890s the dominant ideology could still be described as liberal in the sense that liberalism was understood in the nineteenth century. Twenty years later, classical liberalism was in full retreat, as evidenced by the triumph of the Wilsonian economic program—the enthusiastically received outpouring of federal enactments between 1913 and 1916 that taxed, subsidized, and regulated economic activities.

The Progressive Era, circa 1900–1916, bequeathed a legacy of economic institutions—federal income taxation, central banking by the Federal Reserve System, more detailed antitrust laws, tighter control over the railroads, regulation of ocean shipping, federal responsibility for food and drug purity, and agricultural credit institutions, to name only some of the more prominent—without which one can scarcely imagine the economic and political life of the United States during the past 75 years. In a mere decade and a half the country moved from a policy regime not too distant from laissez faire to one immediately recognized as modern activist interventionism. Why?

To provide the answer, or at least a great deal of the answer, is Martin J. Sklar's task in his massive and important book, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, The Law, and Politics* (Cambridge: Cambridge University Press, 1988). Even scholars who do not accept Sklar's interpretation will recognize his volume as a major work. Sklar has dug deeply into the archives and emerged with interesting and valuable findings. He has thought long and hard about how to comprehend the changing relation of the government to the economy in the Progressive Era. He expresses his ideas in careful and discriminating—often painfully discriminating—prose. Yet, although Sklar has built his interpretive structure on a solid foundation of facts and pertinent scholarship, he has produced a twisted and unsatisfactory edifice. My task in this essay is to explain why I have come to this conclusion.

The Rise of Big Business

Until the very end of the nineteenth century, Americans usually conducted their economic affairs either individually or within small firms organized as proprietorships or partnerships. Business corporations were not unknown, and indeed such enterprises as turnpikes, canals, railroads, and commercial banks usually took the corporate form, but in industry, commerce, and agriculture—that is, nearly everywhere except in trans-

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portation, banking, and public utilities—corporations were unusual. Before the 1890s, only a single manufacturing firm, the Pullman Palace Car Company, had shares traded on the New York Stock Exchange, where railroad and public utility shares constituted the market.[1]

During the 1890s, more and more industrial firms adopted the corporate form. Then, around the turn of the century, a wave of corporate consolidations transformed manufacturing industry with a suddenness that shocked many contemporaries, whose only knowledge of huge industrial enterprises pertained to the infamous trusts formed in the 1880s. From that time forward, public policy for regulating the size and conduct of large corporations would be known as antitrust policy, even though large enterprises legally organized as trusts disappeared at the turn of the century. The "Trust Problem" was actually the problem of how to adjust in economic and political affairs to the presence of many large corporate enterprises.

Because large corporations enjoyed substantial shares of the markets in which they sold their goods, they faced, as economists say, downward sloping demand curves; they could raise the prices at which they offered their wares without losing all their customers. In this respect the big firms differed from, say, wheat or cotton farmers, "price takers" who faced virtually horizontal demand curves and were compelled to sell at no more than the going market price. In the terminology of mainstream economics, wheat farmers are "perfect competitors," while big firms with hefty market shares have "monopoly power." These terms, although well understood in the literature of economics, have always been misleading to noneconomists, because they suggest that the "perfect competitor" *competes* in the layman's sense of engaging in rivalry with other sellers, but that sellers with "monopoly power" do not or need not do so.

In reality the opposite is the case. Price takers do not engage in rivalry with other sellers. Because of the nature of their (homogeneous) product and the market structure in which they operate (many sellers, complete information), they can do nothing to win a rivalry with "competing" sellers. What mainstream economists call perfect competition is actually the antithesis of economic rivalry. Conversely, firms with so-called monopoly power, which are better designated as "price searchers" because they have many price options and must search for the optimal price to charge, strive incessantly to ward off rival or potentially rival firms. By advertising, cutting costs and prices, establishing new markets, and developing new products and processes of production, they routinely compete in a variety of rivalrous ways unknown to the "perfect competitor."[2]

Sklar, for all the radicalism of his neo-Marxist framework of analysis (see below), accepts the standard economic model of market structures. Thus, he views the appearance of large manufacturing corporations at the

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turn of the century as a transition from the "proprietary-competitive stage" to the "corporate-administered stage" of American capitalism, that is, from a market of powerless price-taking firms to a market of powerful price-searching firms organized as corporations with widely dispersed, publicly traded shares and therefore a presumptive separation of ownership from managerial control (his presumption, not mine). He asserts that the transformation of industrial market structures was pervasive, giving rise to corporate "dominance" of the overall United States political economy during the first decade of the twentieth century (4–5).

When huge, powerful firms come to dominate the political economy, the protection that the public previously received from competitive market processes no longer exists. People must control the monster roaming loose in the marketplace or it will devour them. The question becomes: Who will regulate the economy and, therefore, who will control the country? Obviously, individuals are powerless. The choices reduce to just two, either the big corporations or the government. More specifically, because the big firms operate nationwide, state governments lack the power to control them; only the federal government has the scope of authority needed to do the job. If the federal government does not act, if its officials insist on following laissez-faire precepts restricting their involvement in the economy, then the managers of the big corporations are free to "regulate" or "administer" the market and thereby to control the country (181).

Sklar proceeds to interpret in painstaking detail the legal and political history of antitrust in the Progressive Era, viewing the Trust Question as the crux of the multifaceted conflict over the nature of the modern political economy. His assumption is always that unless a market consists of nothing but price-taking firms, it will necessarily be "regulated" by either the corporations or the federal government (167–69, 251). He cannot conceive that price-searching firms might be subject to severe competitive constraints on their freedom of action.

Sklar's assumption does not fit the facts. As Joseph Schumpeter observed fifty years ago, "in capitalist reality as distinguished from its textbook picture, it is not [price] competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization . . . competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives."[3] The big firms routinely faced just such competition; and, notwithstanding what many economists have alleged, there was plenty of price competition, too.[4]

For example, the railroad companies, the nation's first big businesses, chronically failed to suppress competition, despite repeated efforts. Not

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only did they compete by adopting improved equipment and organizational innovations that allowed them to deliver improved service; they regularly competed by offering lower rates than rival companies. Thus, the late nineteenth century witnessed "intense and persistent rate competition"—indeed outright rate wars from time to time—notwithstanding the huge size and big market shares of the railroad companies.[5]

Not even Standard Oil, the most notorious of the trusts, could control the market. After the turn of the century, Standard's competitors steadily gained market share in the petroleum refining industry as they, unlike Standard, developed new sources of petroleum in Texas and Oklahoma and concentrated on supplying fuel oil and gasoline, for which the market was growing rapidly, rather than Standard's mainline product, kerosene. But even during the late nineteenth century, as Dominick Armentano has observed, "Standard's price and output behavior [that is, rapidly falling real price and rapidly rising output] is entirely consistent with what would have been expected under competitive conditions. . . . There was no restriction of supply, and monopoly prices were never realized. . . . Standard was a large, competitive firm in an open, competitive market."[6] Standard's suppression of competition is a myth.

In fact, except for one insignificant industry (castor oil), all the industries alleged to have been monopolized by the trusts in the 1880s had relatively rapidly rising outputs and relatively rapidly falling prices between 1880 and 1900—just the opposite of the behavior one expects from a monopoly. This pattern has been documented by Thomas DiLorenzo for salt, petroleum, zinc, steel, bituminous coal, steel rails, sugar, lead, liquor, twine, iron nuts and washers, jute, cottonseed oil, leather, and linseed oil.[7] Where's the evidence of monopoly power?

Sklar's central assumption that unless the government regulated the markets, the big firms would do so is simply not true in any important sense of the word "regulate." What price-searching firms do is not accurately expressed by saying that they "regulate" or "administer" the market. Markets are not so easily controlled, because competition can and does take place on many different margins.[8] But Sklar's confusion on this account is not the end of his misapprehension regarding regulation.

For Sklar, all regulation is alike. Whether it is done by big corporations or by the federal government affects only the identity of the actor, not the nature of the action. But equating "regulation" by private firms, however big they may be, with regulation by the federal government cannot be justified. Large firms, even if they hold monopoly positions in their own industries, always face either actual or potential competition. Apart from international competition, which is important in many industries, firms compete across industry lines. Even if U.S. Steel had become the only steel

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producer in America when it was formed in 1901 (as opposed to merely the largest among scores of competing firms), it would have faced competition in many markets from wood, masonry, concrete, glass, and so forth (and later from plastics, aluminum, and other metals), depending on the particular market considered. The telephone industry giant, American Telephone and Telegraph, faced competition from the telegraph industry giant, Western Union, in the long-distance market and from a host of messengers in local markets—not to mention competition from the post office. In the market for electrical transmission wires, the big copper companies faced competition from the aluminum monopoly, Alcoa. And so it went, in one industry after another. Orthodox definitions of what constitutes an "industry" are more or less arbitrary and have little to do with the scope of rivalry within a particular market, which encompasses all products regarded as substitutes by demanders. Government regulation, on the other hand, rests on the government's coercive power; its potential for shutting off avenues of escape is immensely greater.

Perhaps Sklar fails to perceive this difference because he believes that the political economy tends toward a tight internal coherence, in which every part of the social system—technologies, property rights, political powers, ideology, and social classes—comes into compatible alignment. Business, he asserts, is also power. "Business, or capitalism . . . is not simply 'economics,' although it subsumes economics. It is property relations; it is class relations; it is a sociopolitical mode of control over economics and over a broad field of social behavior besides; it is a system of law and governance; it is ideology" (8–9). I am not sure whether Sklar regards this sweeping statement as definitional or as a hypothesis to be tested against the facts, although, in view of his subsequent argument, the former seems more likely.

Sklar overlooks the voluminous evidence that the great business consolidations formed around the turn of the century could not control competition and tended to lose market share as time passed (e.g., U.S. Steel, American Sugar, Standard Oil, American Tobacco, United States Envelope, International Paper, American Hide and Leather, International Silver, Glucose Sugar Refining Company, International Harvester, Amalgamated Copper).[9] Eventually many of the turn-of-the-century consolidations went bankrupt and were reorganized (e.g., United States Leather, National Cordage, American Malting, and the Distilling and Cattle Feeding Company)[10] Those that failed to reduce their costs fared especially badly.[11] After surveying the historical data, Nathan Rosenberg and L. E. Birdzell concluded that "the events of 1880 to 1914 did not restructure American industry into monopolies. . . . It is not likely that the events of 1880 to 1914, although they reduced the number of firms in some industries, left Western industry as a whole [including U.S. industry] any less com-

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petitive than it had been, once we allow for other trends that were, concurrently, increasing competition."[12]

Like virtually all writers on the left, Sklar loses perspective on the overall economy by focusing too heavily on manufacturing, overlooking other equally important sectors. From evidence about consolidations in the manufacturing sector, he concludes that big corporations dominated the entire U.S. economy.[13] The numbers don't support such a conclusion. During the Progressive Era less than 20 percent of the national income originated in manufacturing, and much of that came from small and medium-sized firms. Nearly as much income originated in agriculture, where a much larger proportion of the labor force found employment. Almost two-thirds of all income originated in mining, construction, transportation, trade, services, and government.[14] In none of these sectors except transportation and public utilities did big firms loom very large. To speak of the manufacturing giants as dominating the economy is to make the tail wag the dog. Recognizing that the large firms did not "dominate" the economy helps us to understand the complexity of Progressive Era politics and why the contemporary legislative reforms commonly struck some sort of compromise. As Stephen Skowronek concluded, "There were no unqualified triumphs in building the new American state."[15]

As evidence of the dominance of concentrated manufacturing, Sklar offers the estimate that between 1904 and 1939 the largest 18,423 plants produced more than 75 percent of the value of all U.S. manufactured products at each census date (46). That's high concentration? Anyone who has ever tried to direct a meeting of 18,423 participants knows just how much trouble the bourgeoisie must have had getting organized in 1904. To be fair, one must recognize that Sklar's focus seems to be on the top 200 to 500 firms; but the point remains. As Morton Keller has observed, "big business was not a homogeneous, single-interest entity."[16] Eastern capitalists versus Midwestern or Southern capitalists; exporting capitalists versus importing capitalists; transportation-selling capitalists versus transportation-buying capitalists; lending capitalists versus borrowing capitalists; the list of divisions goes on and on. At one point (31–2) Sklar himself concedes the point, but the concession has no apparent effect on the thrust of his argument.

A Capitalist Class?

Sklar's failure to appreciate the heterogeneity of big business interests may spring from his left-radical conception of class and class conflict. He asserts that "the capitalist class consists of associated people with goals, values, ideas, and principles, as well as interests. They are people with a

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way of life to develop, defend, and extend, based on a definite type of property ownership and labor exploitation" (2–3). If this description is correct, then members of the class need not consciously coordinate their political actions; as members of the same class, they share a common conception of the problems they face and a common aspiration to effect certain changes viewed as favorable to all members of their class. There is some truth in such a depiction. Ideologies sometimes motivate individuals to act in the interest of a group to which they belong and with which they identify strongly.[17] Surely, for example, virtually all capitalists, circa 1904, opposed the election of socialists to public office. (There remains the free rider problem, however, which ideological solidarity does not always overcome.)[18] But in any event the mere fact—if it really is a fact—that all capitalists shared *certain* attributes and interests is insufficient to justify a class conception of how they acted politically and economically.

In many particular situations, the greatest threat to a capitalist is another capitalist. Especially striking is the extent to which the opposing political factions of the Progressive Era were segments *within* the capitalist "class." The results of this internecine conflict appear in many of the Progressive Era reform acts. Thus, Eastern financial tycoons failed to get the monolithic central bank they wanted. Instead, the system created by the Federal Reserve Act contained twelve loosely coordinated regional reserve banks, reflecting the influence of country bankers as well as Western and Southern business interests in general. The Federal Trade Commission Act and the Clayton Act did not contain the federal incorporation provision favored by certain big Eastern capitalists; nor did those acts provide for advisory decisions by the FTC, which the moguls wanted. Instead, continued state incorporation and only "cease and desist" orders by the FTC subject to judicial review were included in the acts, again as favored by Midwestern and smaller capitalists. The exemption of labor unions from all liability under the antitrust acts, which was favored by the establishment capitalists associated with the National Civil Federation, failed to gain enactment because of opposition from the rabidly anti-union small businessmen represented by the National Association of Manufacturers. Many other such examples of divisiveness within the business "class" can be found in Robert Wiebe's *Businessmen and Reform*, which appeared thirty years ago. Although Sklar acknowledges the heterogeneity of the capitalist class (31–2), the acknowledgment does not deter him from proceeding with a thoroughgoing class analysis.

He portrays the capitalists as being engaged in a struggle to create, solidify, and maintain a social, economic, and political order favorable to their values and way of life (14, 34, 87, 252). Of course, one can find some evidence consistent with this way of viewing history, especially in the

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content of the law, the social background of judges, and the actual workings of political and judicial processes.[19] Sklar's account of the National Civic Federation, which provides perhaps the best illustration of his thesis, is instructive. But like Wiebe, who concluded that "Progressive businessmen singularly lacked a grand social vision,"[20] I am struck far more by the frequency with which the politics of each policy question pivoted on much narrower concerns and objectives rather than conflict regarding the grand politico-economic system. Where Sklar sees the big capitalists engaged in a multi-dimensional conflict to determine the nature of the political economy, I see them engaged in a multitude of particular conflicts each of which concerned them mainly because it affected more or less immediately the magnitude of their profits or the value of their wealth.

A case in point has to do with the institutional developments that emerged from the deep depression of the mid-1890s. Problems brought to the fore during that severe business slump gave rise to diverse efforts to repair the economic machine, efforts that eventually included both the creation of a central bank and the formation of hundreds of industrial consolidations. But the major problem in the minds of the capitalists seems to have been the simple absence or insufficiency of returns on their investments during the depression. With demand abated, competition among sellers had grown fiercer.[21] Sklar illustrates the problem with a quotation from a contemporary commentator, Edward S. Meade, who observed in 1900 that the manufacturers wanted "to stop this worrisome struggle, whose benefits are nearly all of them gained by the consumer in low prices. . . . They want a larger profit without such a desperate struggle to get it" (56). Producers in 1900, it seems, were no different from those described by Adam Smith in 1776.

In both cases the principal concern of capitalists was their own individual wealth, and the greatest threat to each one's attainment of his goal was the competition of fellow capitalists. Of course, mergers into larger firms might promise to stave off some of the competition temporarily, but the market contained no permanent safe havens. Thus, the big capitalists with business in many states turned to the federal government, seeking legal means by which they could bring to bear the government's coercive power to keep competitors at bay.[22]

As already noted, however, the big capitalists were scarcely the only interest group or class pounding on the government's door, and it was simply impossible for everybody to get inside at once. The large railroad companies and the opposing (much smaller but much more numerous) shippers could not both control the Interstate Commerce Commission's decisions during the Progressive Era, and the shippers prevailed.[23] Unionist Samuel Gompers, who rubbed shoulders with the sympathetic Eastern

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business elite on the National Civil Federation, could not make organized labor's position prevail during the process of amending the ill-fated Hepburn bill of 1908; opposition from the small capitalists of NAM and allied organizations was too strong, as Sklar himself recognizes (254–9). On one issue after another, big business was one interest—often itself only a hodgepodge of more or less antagonistic interests—among many. Despite its impressive strength it certainly did not always get its way in the policy struggle. Robert Wiebe went so far as to conclude that the big Eastern capitalists, whom Sklar portrays as seated firmly astride Progressivism, "despised the Wilsonian compromise [policies enacted during 1913–1916] which they believed had in each case sacrificed their interests."[24]

The Twists and Turns of Antitrust

Nothing illustrates the absence of enduring big-business domination better than antitrust law. Ever since the passage of the Sherman Antitrust Act in 1890, antitrust law has fluctuated. The law has been amended by statute on several occasions. More importantly, the courts have rendered varying decisions on the exact meaning to be attached to the statutory language. Economists, historians, and others who have not studied the legal history closely usually fail to appreciate its actual twists and turns during the past century.

No period of antitrust history is more misunderstood than the first twenty years. In presenting a clear and compelling reinterpretation of the law during this period, Sklar is at his best. This part of the book—a chapter of 90 pages that might almost have stood by itself as a monograph—suffers less than the other parts, especially the first and last chapters, from distortions associated with Sklar's analytical framework.

The key is to understand that the Sherman Act was not at all the vague statute it was later said to be. The law declared illegal "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations." Further, "every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty." Many commentators have claimed that the root problems of these provisions are that they fail to spell out what it is about a contract, combination, or conspiracy that causes it to be "in restraint of trade" and that there is no guidance as to which businesses are "monopolies" and which are not. Thus, the framers of the legislation stand accused of enacting nothing more than an airy declaration against the "trusts," to which subsequent litigation necessarily had to give

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concrete meaning. Hence the fluctuating interpretations of the judges, who lacked any firm statutory anchor. The vagaries of judges cannot be denied, but Sklar shows convincingly that the framers of the Sherman Act were innocent of the subsequent charge against them. He demonstrates that a correct understanding of what the framers intended to do, in contrast to the literal understanding suggested by the statutory language and favored for a time by a majority of the Supreme Court, opens up a much fuller understanding of the politics of antitrust in the Progressive Era.

Sklar argues that the framers of the Sherman Act intended only to codify the common law that had emerged during the preceding sixty years, adding criminal sanctions to the remedies of the civil law and providing for treble damages to successful private plaintiffs. The terms "restraint of trade" and "monopolize" had well-established meanings among contemporary lawyers:

> The general rule at common law with respect to restraint of trade stipulated that voluntary restraints among parties, whether partial or general, to maintain prices at a profitable level and to protect their business interests, were to be held reasonable and therefore valid, provided their intent or effect did not exceed such purposes, were not considered to be detrimental to the public interest, and did not include the physical prevention of, or a conspiracy to prevent, others from entering or remaining in the line of business or trade concerned—that is, did not restrain the trade of outsiders, or did not prevent or seek to prevent competition. (98)

In the language that came into use later, one could say that the common law already employed a "rule of reason" regarding restraint of trade long before the Supreme Court decisions of 1911 with which the rule is usually associated. As for the second key term, the common law held that firms "monopolized" when they acquired "the whole business for themselves by preventing outside competitors from pursuing trade or maintaining their independent existence" (99).

Clearly the law did not hold bigness per se unlawful, nor did it regard sole occupancy of the market as unlawful unless active measures to prevent the entry of rivals had been undertaken. As Sklar puts it, the common law as it stood circa 1890 "may be described as the juristic hypostatization of the dogma of natural liberty" (100). The common law "was not intended to protect weaker or inefficient competitors from stronger or more efficient competitors, not even to compel competition. . . . Rather, by the late nineteenth century it was intended to safeguard the right of individuals freely to enter the market and make contracts, and to let the operations of the market determine the outcome" (104). The framers of the Sherman Act sought to proscribe as criminal offenses "restraint of trade" and "monopoly" in these and only these senses. Moreover, from 1890 to 1897 the federal

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courts, in their rulings on antitrust cases, applied just such an understanding of legislative intent.

Then, in the *Trans-Missouri* case of 1897, the U.S. Supreme Court effected what Sklar terms a "coup de jure." From that time until the "rule of reason" decisions of 1911, a majority of the court, led by Justice John Marshall Harlan, took the position that the Sherman Act, rather than codifying the common law, had superseded or reversed it, thereby requiring that, with just two exceptions, monopolies and restraints of trade be found unlawful regardless of whether they were legally reasonable or not. The two aspects of the previous jurisprudence that persisted as the Court construed the Sherman Act were the lawfulness, first, of monopolies achieved through lawful competition or purchase of property and, second, of incidental restrictions of competition. In other respects, however, the Court's position from 1897 to 1911 represented a substantial departure from its traditional doctrine.

> For the traditional judicial doctrine that reasonable restrictions of competition in interstate trade were legal, the Court's majority had substituted the doctrine that no direct restrictions of competition were legal; for the traditional doctrine upholding the right to compete and contractual liberty as distinguished from a compulsion to compete, the Court's majority had substituted a doctrine that set compulsory competition against contractual liberty. As against calculative attempts by capitalists to regulate the market in order to maintain the remunerative nature of pecuniary pursuits, the Court now asserted the natural, impersonal rule of the unfettered market, enforced where necessary by government regulation of capitalists' behavior. (138)

During the fifteen years of this phase, in Sklar's view, the Court created a fundamental conflict between corporate impulses to control the market and strictures against even "reasonable" restraints of trade. At no time did the law proscribe bigness or "market power" as such, but it did condemn many forms of "restraint of trade" regarded as lawful either before 1897 or after 1911.

In the interim the capitalists suffered from chronic anxiety, operating in "an incongruous legal order" (166). Theodore Roosevelt's administration took advantage of the situation by consulting regularly with big businessmen and following a policy of selective prosecution. Corporations that pleased TR, which he called "good trusts," escaped prosecution and therefore never ran afoul of the courts' strict interpretation of the antitrust laws. Corporations that displeased TR found out why he enjoyed some notoriety as a "trustbuster." By conducting his policy in this fashion Roosevelt failed to do his constitutional duty faithfully to execute the laws, but that never bothered the Rough Rider, who had a rather expansive view of presidential powers under the Constitution. Meanwhile, the objectives of

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the great corporate capitalists during those years were "to change the law and get the corporation question 'out of' politics" (167), objectives they ultimately achieved with the Court's decisions of 1911 and, more decisively, with passage of the Federal Trade Commission Act and the Clayton Act in 1914.

Having told in considerable detail the story of the evolution of antitrust jurisprudence, Sklar then retells the story, devoting 261 pages to a narrative focusing on the political side, especially the antitrust question as seen and dealt with by Presidents Roosevelt, Taft, and Wilson. This part of the book contains much of interest to specialists but packs less revisionist punch than the long chapter on the judiciary. I shall not attempt to summarize the arguments in detail, but the analytical style of this and other parts of the book deserves some comment.

Sklar's Conceptual Framework

Sklar does not present his explanatory framework as an explicit or formal model, but from his evident assumptions and his conceptual terms, some of which he pauses to clarify, one can make out fairly clearly what the framework is. Although it is not Marxism pure and simple, it can be described as a variant of the Marxist model. Morton Keller refers to it as an example of a "more moderate neo-Marxist line of interpretation" associated with the term "corporate liberalism," which Sklar has helped to popularize (18, 174).[25]

Sklar views the political economy as passing through stages. But his stages are not just convenient descriptions of how the system tended to operate at various times. Rather, they seem to be historically necessary categories, waiting patiently for empirical reality to pass through them, as it must. Thus, "capitalism is the sociopolitical organization of economics, the larger social framework and relations of power within which input-output and allocative functions proceed at a certain stage of a society's history" (6); "the passage of capitalism from its proprietary-competitive stage to its corporate-administered stage, which transpired during the period 1890–1916, was a part of capitalism's historical development in the United States" (3); and "the national reform legislation of 1913–1916 represented the culmination of corporate liberalism in its emergent phase of ascendancy" (422). Sklar sometimes speaks not of the U.S. economy at a certain time but of an economy *like* the U.S. economy at a certain time, as if he has in mind some eternal categories that the empirical case before him just happens to exemplify.

For Sklar, a political economy like that of the United States at the turn of the twentieth century acquires its dynamics from class struggle. "The

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process of change will be expressed in significant conflict in the spheres both of the market and the law, and hence in politics. The law becomes a major terrain of contest, as existing property and market relations come into conflict with emergent property and market relations (or relations of production)" (89). The classic Marxian struggle between the capitalist class and the proletariat, however, gets only incidental mention. In its place Sklar puts a broader conflict "within and between ascending and declining movements, corresponding with ascending and declining forms, or stages, of the capitalist property-production system" (14). The declining movement included most prominently the petty bourgeoisie and the Populist farmers who wished to retain the old order of powerless, price-taking firms. Although they were declining in economic importance, these "strata" were well represented in Congress and the state legislatures. The conflict between the old middle class and the ascending corporate class became inevitable around the turn of the century because "critical components of the extant governmental system of power, including the legal order, fell out of phase with the changing pattern of authority in the property-production system and its expression in trends of thought" (14–15).

Not surprisingly, Sklar views ideas as springing from technological and economic conditions. Thus, the changes in productive techniques and economic organization associated with the rise of big corporate business "generated new professional, technical, and managerial functions with their corresponding social strata and, in turn, their values, attitudes, and ideological dispositions" (431). There is no room here for ideas as an independent variable; sooner or later the "mode of production" determines everything else in social and political life.

In many other respects, too, Sklar speaks the language of Marxism. Capitalists are said to be exploiting labor. The "modern capitalist market is," among other things, "a realm of law of class domination and its related arts of power, politics, and ideology" (87). Big corporations are routinely assumed to "dominate" the economy. When any mention of businessmen's interest in foreign trade or investment occurs, Sklar labels it "imperialism."

Notwithstanding the blinders of his explanatory framework, Sklar strives for an interpretation having a degree of subtlety that matches the complexity of the evidence. He is not always so heavy-handed as I may have suggested in the foregoing remarks. Indeed, one may well wonder how, in light of the many caveats he makes, he can cling to his own interpretation. He acknowledges that corporate capitalism did not " 'take over' society and simply vanquish or blot out everything else." Rather,

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> market relations, forms of thought, political movements, and cultural patterns associated with small-producer and proprietary enterprise remained widespread, influential, and strongly represented in party politics, Congress, and the judiciary, and at the state and local levels of politics and government. They continued to exert a large impact, moreover, in the national electoral arena and in national legislative forums. The large corporations and corporate-administered markets, for some time to come, lacked anything near full legitimacy in the minds of a considerable segment of the people and their political representatives. (15)

One may well ask: Can this be a description of corporate capitalist dominance? So sweeping are the qualifications of the thesis that one may read them not as qualifying the thesis but as refuting it.

Thus, in describing differences "within and among trade and civic associations," Sklar admits that conflicts "among variations of the corporate and proprietary outlook characterized the entire period" (16). Further, "conflicting proposals for government regulation of the market derived from . . . all manner of bourgeois sources within the market, as well as from intellectuals, social reformers, independent professions, trade unionists, and political leaders" (17). Amid such multi-dimensional struggles, where are the clear-cut classes and the alleged class conflict?

Corporate liberalism, Sklar concedes, "emerged not as the ideology of any one class, let alone the corporate sector of the capitalist class, but rather as a cross-class ideology expressing the interrelations of corporate capitalists, political leaders, intellectuals, proprietary capitalists, professionals and reformers, workers and trade-union leaders, populists, and socialists . . ." (35). Who's left out? Given the admission that the new order served the perceived interests of such a broad and diverse collection of social groups, how can Sklar conclude that the Progressive movement established "the dominant position in the market of the corporate sector of the capitalist class" (ibid.)?

After hundreds of pages documenting the multiplicity of interests that shaped the Progressive Era's economic and political accomplishments, Sklar concludes that "a broad proregulatory consensus defined the common ground of the great debate over the reorganization of the market. Upon this ground, disagreement proceeded . . ." (433). Such a bland and sensible conclusion is hardly news to anyone acquainted with the literature on Progressivism.[26] Nor does it provide a sufficient foundation for Sklar's more exacting interpretation.

Apart from the Marxist apparatus and the objections one may make regarding the adequacy of Sklar's evidence to sustain his argument in its particulars, one may object to the nature of his explanations in general. Sklar seems to believe that by naming an institution, event, or other

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phenomenon, one has thereby explained it. (He is hardly the only scholar guilty of this sin. In the higher reaches of sociological theory, the practice is common.) Throughout the book his references to "the corporate reconstruction of capitalism" and "the corporate administration of the market" seem to serve this function. In general, things are either X or not X; or they are becoming X, or entering the X stage and leaving the Y stage. Movements for X contend with movements for Y. This argumentative style sets up a series of dichotomies in which everything stands in either-or relations. Lost is any sense of continuous variation wherein things are not either X or not X but rather more or less X.

For example, Sklar argues that "resort to the corporate form of enterprise . . . became increasingly more compelling in the United States. . . . The property form matched inducement and need with effective and available market instrumentalities" (166). But how then is one to understand the (unacknowledged) fact that many industrial firms did not adopt the corporate form and that in important sectors of the economy (agriculture, trade, services) corporations never became common until much later, after World War II?[27] (High postwar tax rates and provisions of the tax laws permitting the sheltering of some corporate income from taxation, rather than fundamental economic or technological imperatives, may account for the eventual adoption of the corporate form in these sectors.) For Sklar the question of incorporation, like the others he considers, elicits a nominal answer. In contrast, for social scientists who strive to "explain the variance" in empirical data, as many do nowadays, recognizing that some variables are continuous rather than categorical is built into the research strategy.

Politics and Statism

In analyzing the options for the future of the political economy under debate during the Progressive Era, Sklar settles on a trichotomy mirroring the alternatives supported by the three major presidential contenders in the election of 1912, Roosevelt, Taft, and Wilson. (He dismisses any possibility of a hands-off policy regime, on the grounds that no politically important segment of the public favored that option [10, 33, 35, 53–4] and that in any event laissez faire was impossible in an economy dominated by giant corporations. Nor did thoroughgoing socialism stand a chance under American conditions circa 1900–1916 [77].)

Roosevelt's position was the most extreme. During his presidency, TR became more and more inclined to support sweeping controls by the executive branch of government over big business. During his last year in office he presided over a series of machinations related to the so-called

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Hepburn Bill to amend the Sherman Act. (The bill had virtually nothing to do with Representative William P. Hepburn of Iowa, the influential chairman of the Committee on Interstate and Foreign Commerce. After passing through more than a dozen revisions, it ended up as a bill supported by Roosevelt and almost no one else.) The bill never gained passage. Even those who had initially supported it concluded that "the direct participation of the government in marketplace decision-making, a participation centered in extraordinary executive powers . . . was more than they had bargained for" (248).

Roosevelt could not have been surprised by the defeat and was not dismayed by it. He seems to have used the occasion to stake out a position with an eye to political campaigns farther down the road. TR's goal, which came into clearer focus during the campaign of 1910–1912, was essentially to transform all big businesses into public utilities, subject to the same kind of exacting federal regulation already exercised over the railroad industry. "We must," he declared in 1911, "abandon definitely the *laissez-faire* theory of political economy, and fearlessly champion a system of increased Governmental control, paying no heed to the cries of the worthy people who denounce this as Socialistic" (344).

During Roosevelt's presidency, William H. Taft had loyally supported TR's policies, but after his own election to the presidency he moved to the right at the same time that Roosevelt moved to the left. Taft, always the jurist at heart, looked askance at proposals to create an executive-branch agency with extreme discretion to regulate the large corporations. He feared the "undermining of our Constitutional Government" (349). Although the Taft administration in four years initiated more than twice as many antitrust prosecutions as the Roosevelt administration had in seven years, Taft heartily approved the "rule of reason" decision of the Supreme Court in the *Standard Oil* and *American Tobacco* cases decided in 1911. He had favored the rule of reason all along, just as he had always favored the resolution of antitrust complaints by the courts, not by the executive branch or its agencies, such as the Bureau of Corporations (created in 1903). "To Taft, property rights constituted a basic human right and were not to be viewed as in conflict with, and hence subordinate to, human rights" (365). He feared the consequences of having a federal bureau empowered to set aside the contracts, agreements, and arrangements of businessmen acting in ways that the common law had long regarded as reasonable and consonant with the public interest.

As Roosevelt and Taft headed in opposite directions, they opened up a space in the middle for Woodrow Wilson to step into in 1912. For a long time Wilson and Roosevelt had been on good terms and had shared similar views. Wilson, however, moved only moderately toward the left while

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TR went much farther. By 1912 Wilson favored "regulating business methods through a mix of commission and judicial enforcement of a common-law-based antitrust law, with ultimate judicial supremacy in the process as a whole" (381). This, of course, was the position destined to prevail legislatively in 1914 and afterwards.

Sklar's account of the three presidential positions and the politics that accompanied them is immensely interesting and revealing, but the language he uses to state his conclusions is perplexing. For Sklar, the events of 1914 "effectively 'settled' the trust question" (381); they "took the trust question . . . 'out of politics'" (425). The resolution effected in 1914 meant that the "statist" option championed by Roosevelt had been repudiated once and for all, as had Taft's conservative alternative relying on judicial determinations and the rule of law. The winning option was then, and remains to this day, "Wilson's antistatist, regulatory corporate liberalism" (382).

Sklar overstates the extent to which the corporation question was ultimately resolved in 1914. It is true, of course, that the FTC still exists and that the Clayton Act has not been repealed. But the antitrust laws were amended by major legislation in 1936, 1950, and 1976, not to mention the ill-fated National Industrial Recovery Act, countless shifts of enforcement policy by the FTC and the Justice Department, and a plethora of antitrust efforts at the state level. It goes much too far to say that the question was "taken out of politics" after 1914, even if one means, as Sklar does, politics only in the sense of party platforms and electoral competition. The Trust Question never again loomed as large as it had during the Progressive Era, to be sure, but it did not disappear from the political arena. Like many other issues, it came more and more to be resolved by the indirect politics of enforcement (or the lack thereof) rather than the direct politics of the ballot box.

As for Sklar's conception of what is and is not "statist," I must register a more fundamental disagreement. Sklar seems to consider governmental measures as statist only when they represent the exercise of effectively unbounded powers by government executives or their agents unchecked by independent judicial review of their actions and decisions. Thus, Roosevelt's proposals of 1910–1912 qualify as statist because they called for an executive agency to regulate prices, investments, and other fundamental aspects of the conduct of (ostensibly) private enterprises. Wilson's alternative, on the other hand, is seen as eschewing statism because it did not call for quite such sweeping agency regulation and did provide for judicial review of agency decisions. Again, an either-or distinction will not do; instead we need a sense of more or less. With almost 80 years of hindsight, we can see quite plainly that Wilsonian political economy has abided the

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potential for the government's controls to expand virtually without limit, as occurred most conspicuously after the Supreme Court decisions of 1937 and later, in which the justices declared that any degree of federal economic regulation whatsoever would be regarded as constitutional. Nor is purely judicial regulation apolitical: even the courts, which formed the core institution of Taft's "conservative" alternative, are branches of the government and are constantly embroiled in politics.

When Sklar writes that the Federal Trade Commission Act "maintained judicial supremacy over executive administration, and with it the supremacy of society in its market relations over the state" (422), he is employing a conception of either "society" or "supremacy" that obfuscates our understanding in at least two senses. First, it embraces a long-discredited idealism about judicial independence from political give-and-take. Second, it diverts our attention from the massive entanglement of state and society characteristic of the twentieth century—an oversight that allows leftist analysts to continue to call the mixed economies of the West "capitalistic," linguistically justifying greater state intervention by implying that there is as yet not much of it. Once more, an ill-chosen conceptual framework only muddles and detracts from Sklar's painstaking account of what actually happened in the years when the modern state was being created.

NOTES

1. Nathan Rosenberg and L. E. Birdzell, *How the West Grew Rich: The Economic Transformation of the Industrial World* (New York: Basic Books, 1986), 221.
2. Friedrich A. Hayek, "The Meaning of Competition," in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), 92–106; Thomas J. DiLorenzo and Jack C. High, "Antitrust and Competition, Historically Considered," *Economic Inquiry* 26 (July 1988): 425; Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1977), 413.
3. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy,* 3rd ed. (New York: Harper Torchbooks, 1962), 84. Hayek observed that "competition is by its nature a dynamic process whose essential characteristics are assumed away by the assumptions underlying static analysis" (94).
4. Chandler, 317 and passim; Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (New York: Free Press, 1963), esp. 26–56; Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (Cambridge: Cambridge University Press, 1985), passim.
5. Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Fail-*

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ure, 2nd ed. (New York: Holmes & Meier, 1990), 61. See also Paul W. MacAvoy, *The Economic Effects of Regulation: The Trunk-Line Railroad Cartels and the Interstate Commerce Commission before 1900* (Cambridge, Mass.: MIT Press, 1965) and Gabriel Kolko, *Railroads and Regulation, 1877–1916* (Princeton: Princeton University Press, 1965).

6. Armentano, 66. See also Chandler, 326 and passim, and Kolko, *Triumph of Conservatism,* 39–42.
7. Thomas J. DiLorenzo, "The Origins of Antitrust: An Interest-Group Perspective," *International Review of Law and Economics* 5 (1985): 78–80.
8. Hayek, 92–106; Chandler, 413 and passim; Israel M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973); George J. Stigler, *The Organization of Industry* (Homewood, Ill.: Irwin, 1968).
9. Armentano, 50–51, 66–7, 88, 98; Lamoreaux, 141–2; Kolko, *Triumph of Conservatism,* 27–9, 37, 46, 50. See also Stigler, 100–104, and Chandler, 315–44.
10. Lamoreaux, 141.
11. *Ibid.,* 189–90.
12. Rosenberg and Birdzell, 295.
13. Even within manufacturing Sklar overstates the extent to which big business became dominant. Alfred Chandler, in his definitive work, found that big integrated firms became the norm where they could use "capital-intensive, energy-consuming, continuous or large-batch production technology to produce [standardized products] for mass markets" (347). Where such technological and market conditions did not exist (e.g., textiles, apparel, leather goods, machine tools, publishing and printing), big firms rarely appeared.
14. U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: Government Printing Office, 1975), 238, 240.
15. Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877–1920* (Cambridge: Cambridge University Press, 1982), 18. For detailed historical accounts that emphasize the great and growing diversity of contending interests during the Progressive Era, see Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, Mass.: Harvard University Press, 1962) and Morton Keller, *Regulating a New Economy: Public Policy and Economic Change in America, 1900–1933* (Cambridge, Mass.: Harvard University Press, 1990).
16. Keller, 2–3. See also Kolko, *The Triumph of Conservatism,* 54–5.
17. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), 39–45.
18. Hansjorg Siegenthaler, "Organization, Ideology and the Free Rider Problem," *Journal of Institutional and Theoretical Economics* 145 (March 1989): 215–31, and Robert Higgs, "Comment," *ibid.,* 231–7.
19. Along lines similar to Sklar's, see James Livingston, *Origins of the Federal*

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Reserve System: Money, Class, and Corporate Capitalism, 1890–1913 (Ithaca: Cornell Universtiy Press, 1986). For a broader view of the law in relation to economy and society, see Lawrence M. Friedman, *A History of American Law*, 2nd ed. (New York: Simon & Schuster, 1985).

20. Wiebe, 217.
21. Lamoreaux, 12, 46, 100, 116, 118, 188.
22. Profuse documentation of this claim appears throughout the works of Kolko, Wiebe, Lamoreaux, and Armentano cited above.
23. Albro Martin, *Enterprise Denied: Origins of the Decline of American Railroads, 1897–1917* (New York: Columbia University Press, 1971).
24. Wiebe, 156.
25. Keller, 4
26. Higgs, *Crisis and Leviathan,* 113–16.
27. Robert Hessen, "Do Business and Economic Historians Understand Corporations?" Working Paper in Economics No. E-89-14, Hoover Institution, Stanford University, May 1989, 8.
28. Higgs, *Crisis and Leviathan*, 180–95.

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F. M. Scherer

ANTITRUST: IDEOLOGY OR ECONOMICS?

Dominick T. Armentano's book, Antitrust and Monopoly: Anatomy of a Policy Failure, *2nd ed., has serious limitations as a scholarly work. Monopolistic price-raising is even more objectionable under plausible interpretations of Armentano's subjectivist criterion than in the standard case, which assumes equal subjective value for all consumers' dollar expenditures. Armentano's historical review of leading antitrust cases is also faulty. His evidence on the alleged failure of price-fixing schemes is defective, and his approach to judging whether monopoly power existed proceeds from an inappropriately static theory.*

Being commissioned to review Dominick Armentano's book, *Antitrust and Monopoly*, 2nd ed. (New York: Holmes & Meier, 1990) finds me several standard deviations outside the range of my normal reviewing experience.

For one, the book was first published more than a decade ago,[1] and so by normal standards, it is too old to be reviewed in the conventional manner but too young to be considered a "classic." Some writers appear to view it as a candidate for classic status, however, which is presumably

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F. M. Scherer, professor of business and government, John F. Kennedy School of Government, Harvard University, Cambridge, MA 02138, telephone (617) 495-9510, telefax (617) 496-0063, is a former director of the Federal Trade Commission's Bureau of Economics. His most recent book is *International High-Technology Competition* (Harvard, 1992).

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why I have been handed the baton.[2] In his preface to the minimally altered "revised" edition, for instance, Yale Brozen asserts that the book should be required reading in every introductory antitrust course and by every Congressman. Duty calls, then—if only to set the record straight.

The second reason for my unease is that a cultural chasm separates Armentano and myself. Armentano's principal criticisms of antitrust rest on philosophical foundations, and his mode of argument is more Thomistic than is the fashion in economics. Economists, including myself, are more like plumbers than philosophers. We have a box of analytic tools with which we can address a wide array of problems. We accept without much thought the law of supply and demand (our equivalent to the law of gravity for plumbers) and the differential calculus telling how firms maximize profits and markets adjust to shocks (our analogue to the plumber's equations of fluid motion). When someone tells us that water flows naturally uphill, or that it *should* flow uphill if the world were properly ordered, we are inclined to change the subject rather than debate the point.

Armentano advances three main theoretical criticisms of U.S. antitrust policy: that it is contrary to natural law, that the theoretical proofs of its rationale are insufficiently subjectivist, and that the pure and perfect competition it sets out as an ideal is both unrealistic and unattainable.

Natural Law and Antitrust

According to Armentano (8), individuals have inalienable rights to life, liberty, and property—a reading that may have been Thomas Jefferson's own view, but that he felt compelled to modify slightly before getting his colleagues to sign the Declaration of Independence. From the right to property flows the right to use that property in any way that does not infringe others' property rights. An unstated premise is that third parties (e.g., consumers) have no rights—property or other—against those who combine their property rights to raise prices above competitive levels and transfer purchasing power from the third parties to the combining property-holders. I know of no stone tablets or miracle-working prophets to which the unstated premise can be reliably ascribed. Lysias informs us that the ancient Greeks put to death grain dealers who bought grain in periods of surplus, collusively held it off the market, and sold it at high prices in times of scarcity—a practice that today might be commended for its stabilizing effects. Like many befuddled viewers of the Clarence Thomas confirmation hearings, I simply don't know how one discerns what natural law dictates, and therefore I change the subject.

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Subjectivism in Economics

Economics, like everything else that purports to be scientific, is bound by the limitations of Gödel's theorem, i.e., that the truth of a logical system cannot be proved self-referentially. Thus, certain axiomatic assumptions unprovable within the logical system must be accepted. From the standpoint of economics, the most fundamental assumption underlying antitrust theory is that the demand curve for a commodity is a downward sloping array of tiny points, each point representing in price-quantity space a unit purchase by some consumer. The price dimension value of any such point tells the maximum amount a consumer is willing to pay for the unit in question and not forgo its consumption. Thus, it measures in monetary terms the *value* of the unit to the consumer. The standard economic theory of antitrust accepts this assumption. Embracing instead a subjectivist approach, Armentano rejects it. Therein lies a dispute.

Figure 1 lays out the issues as simply as possible. PD is the demand curve for the product in question; it arrays the units that might be purchased in descending order of consumers' maximum valuations of those units. NS is the supply curve, telling the cost (assumed here to be constant per unit) of supplying various units of the product. In a competitive market, consumers will pay the price of N dollars per unit and choose to consume Q_c units of the product. The value of the product units consumed, however, read off the demand curve, exceeds the prices paid by the combined area (i.e., monetary value times quantity) C + B + A. Economists call this surplus of value over the prices paid *consumers' surplus*. If a monopoly or cartel were formed, the monopolist, seeking to maximize its profits, would reduce its output to Q_m, charging the higher price M dollars. In so doing, the monopoly has two effects. First, it *transfers* from consumers to itself area B (measured in dollars). Second, it chokes off Q_mQ_c units of consumption whose value (read off the demand curve) exceeds the cost of production (read off the supply curve). Consumption is forgone whose value exceeds its cost, and so the consumers' surplus area A is lost, gained neither by consumers nor by the monopolist. This loss is called a *deadweight loss* attributable to monopolistic output restriction.

Armentano dissents from this calculus. There appear to be two reasons for his subjectivist dissent, one explicit and one unstated. The explicitly stated premise (29–30) is that the monopolist's action in raising price from N to M and transferring to itself surplus B was purposefully coordinated with the actions of others (i.e., would-be competitors, *not* consumers) and is therefore to be presumed efficient. This is simply proof by assertion, which may be unavoidable, given the constraints of Gödel's theorem. But one would like to have a more fundamental rationale. The one I learned in

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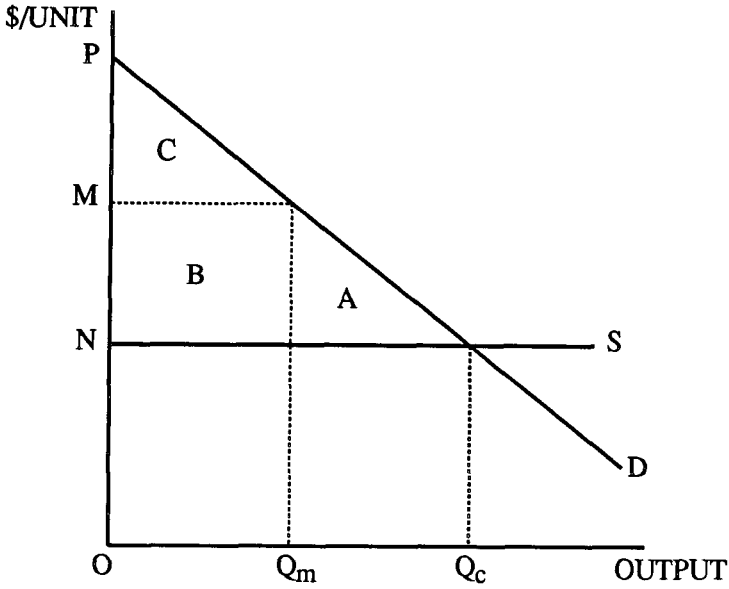

Figure 1

graduate school comes from the roots of the Austrian subjectivist school, led in the late nineteenth century by Carl Menger and Friedrich von Wieser. They argued that even though the values read off a demand curve reflect the monetary value of a product to individual consumers, those values are essentially subjective and non-comparable among individuals. "No one can take his own personal valuation of money, and of the money value of goods, outside of himself, and apply it to other people."[3] The dollars transferred from consumers to the monopolist may mean a great deal subjectively to some consumers and little to others; they may be of immense subjective value to some monopoly profit claimants and of little value to others. Thus, in adding up all the transfers and deadweight losses, the antitrust theorists are adding apples, horse apples, and oranges to reach an unknowable, non-comparable sum.

Fair enough. But in enacting the Sherman Act, the grandfather of antitrust laws, Congress believed it was combatting transfers that on average went to the rich (the owners of monopolistic corporations) from the not-so-rich (the mass of all consumers).[4] That this was right on average has been shown, at least for U.S. conditions, by careful quantitative studies.[5] In disapproving of such transfers, Congress probably believed that on average, there was a systematic pattern in the subjective differences identi-

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fied by Menger and von Wieser: that a dollar taken away from a not-so-rich consumer imposed more pain than it conferred pleasure on wealthy monopoly stakeholders.[6] If so, the subjectively unweighted analysis of Figure 1 *understates* the losses attributable to monopoly price-raising. It is possible, of course, to argue that the pattern runs in the opposite direction: that the exquisitely sensitive nose of monopolists for Chateau Lafite 1973 makes a dollar's consumption worth far more than what that same dollar would bring for Joe Hardhat guzzling his Miller Lite. Perhaps so, but to state such a proposition explicitly would fail the guffaw test. Thus, Armentano dishes out his subjectivism only selectively.

The Perfectly Competitive Model

Armentano also rejects antitrust policy because it is based intellectually, he argues (32), on the "illogical and irrelevant" theory of perfect competition. He does not go so far as to suggest that antitrust supporters believe the actual business world can be made perfectly competitive; that, he concedes (18), would be "the ultimate straw man position." Rather, he objects to the implicit acceptance of perfect competition as "some sort of optimal standard of economic performance." But even this is a straw man.

Like a lawyer arguing his client's case, Armentano cites only statements that support his thesis and ignores those that undermine it. To be sure, there are numerous publications that adopt the naïve position Armentano criticizes. But there is an equally vast body of economic analysis that carefully lays out what one can and cannot expect from a properly functioning real-world economy. That literature was much more influential to the passage of antitrust laws than were the writings of economists espousing perfect competition as an ideal.[7]

Jeremiah Jenks, who provided seminal advice to Theodore Roosevelt, the first trust-busting president, wrote a book of extraordinary richness on competitive and monopoly behavior.[8] The numerous industry studies originating the "industrial organization" school in economics, led by Harvard's Edward Mason beginning in the late 1930s, took an eclectic view of the market conditions that led to good economic performance. So also did the Clarks, father and son, who had an important parallel influence on economic thought during the first half of the twentieth century.[9] So did I, in an "industrial organization" textbook that Armentano cites as providing (279) "a well respected mainstream position on antitrust." Concluding my discussion of what theoretical welfare economics taught, I stated:

> Readers seeking a precise, certain guide to public policy are bound to be disappointed by this survey, for we have found none. The competitive norm

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> does seem to serve as a good first approximation, but it is difficult to state *a priori* how much competition is needed to achieve desirable economic performance, nor can we formulate hard and fast rules for identifying cases in which a departure from competition is desirable.[10]

Armentano purports to have read my text, but he does not appear to have read it carefully. He tars it inter alia (33) for taking a "structural" and hence perfectly competitive benchmark approach to competition. In fact, the introduction emphasizes that "if the difference in approaches had to be characterized by means of labels, it could be said that Bain [author of a leading text at the time] is predominantly a structuralist, while the author of the present work is a behaviorist."[11] Since the time when that phrase was written, industrial organization analysis has become less and less structuralist and more and more behaviorist. But Armentano seems blithely unaware of all that.

There are also reasons for doubting whether he really understands the straw man he has erected. His discussion of the perfectly competitive and alternative models is riddled with errors. He confuses the market and individual seller demand curves under perfect competition (16); he identifies the wrong variable with respect to which profits are maximized under perfect competition (23) and hence misstates a mathematical existence theorem (embroidered more fully by mathematical theorists in recent years); he portrays a marginal revenue function that is geometrically impossible (25); and most important of all, he fails to perceive the difference between the demand functions facing individual atomistic competitors (pure or monopolistic) and the market as a whole, wrongly implying that what economists call conjectural variation coefficients have unit values across all market structures (24, 139). Those who seek a reliable guide to what economic theory teaches are advised to look elsewhere.

Much of Armentano's book comprises a review of precedent-setting antitrust cases. He is sharply critical of what he finds. A considerable fraction of his criticism is well-founded, for in the early days of antitrust, both antitrust fact-finding procedures and jurists' understanding of the relevant economic concepts were primitive. There has been considerable improvement (at substantial procedural cost) on the first score and limping improvement in the courts' economic literacy. Congress has also made its contribution to the muddle, especially in passing the Robinson-Patman price discrimination amendments of 1936, when faith in competitive market processes had been shattered by the Depression and the poorly understood advance of chain stores. (Armentano is apparently unaware that by the late 1960s, the Federal Trade Commission had sharply cut back its Robinson-Patman Act enforcement[12]—a development the revised edition's introduction ascribes to the 1980s.) In any event, there is much to

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criticize in the corpus of judicial opinion. The field is a grouse-shooter's paradise. Nevertheless, many of Armentano's shots go astray.

Price-Fixing

Armentano is relatively extreme among antitrust critics in arguing against the price-fixing prohibitions of Sherman Act Section 1. He advances two main arguments. One is that under his "subjectivist" approach (137), "all voluntary agreements are explicit evidence of an attempt to increase efficiency. . . . Moreover, while price agreements may offend one's sense of morality . . . they are clearly not a property rights violation." This argument can be supported only by *ex cathedra* assumptions with no compelling foundation in logic or the intent of Congress. I therefore pass on to an argument that can be addressed rationally: that price-fixing conspiracies don't harm consumers anyway because they break apart due to chiseling by the conspirators and price-eroding entry by outside competitors.

There is plenty of evidence that price-fixers are a chiseling lot, and that their agreements frequently do break down. But that does not end the inquiry. Armentano advocates a world without penalties for price-fixing. To tell what kind of world that would be, one must examine how cartels work in a prohibition-free environment. He concedes (77) that activities tacitly sanctioned by the U.S. government gave the "Seven Sisters" of world petroleum "nearly unilateral power to determine production levels and prices" until 1973. He fails to examine the well-known sequel—that price-setting and output-restricting efforts by quarrelsome OPEC nations drained hundreds of billions of dollars from the pockets of world petroleum consumers, among other things triggering two worldwide recessions. Although Armentano does not address the point, it is sometimes argued that this analogy is false because the OPEC members are nations, not business firms. But the criticism fails, since the OPEC nations are independent actors, rivalrously conceding even less of their sovereignty to a coordinating group than the typical business firm cartel member does. Westinghouse is not known to have seized General Electric's headquarters over alleged output quota chiseling.[13]

What about illegal cartel activity? Those who argue that cartels necessarily collapse quickly must explain why supposedly rational business executives have been shown repeatedly to have tried colluding, risking prison sentences and huge fines if they were caught. Surely, there must be rewards (e.g., rectangle B in Figure 1) that call forth the effort. Sidestepping this bit of awkwardness, Armentano adduces empirical evidence to support his argument. The case to which he devotes the most attention is the proven price-fixing conspiracy among electrical equipment manu-

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facturers. On turbogenerators, he infers from Ralph Sultan's magisterial study that "the effect of the meetings and agreements on prices was insignificant" (161). As is often the case, Armentano's perusal of the materials is careless. Had he burrowed into Sultan's Appendix 18, presenting the details of Sultan's integrated statistical model, he would have found the flat statement: "Conspiracy prices tend to be higher—by about 8 or 9 percent. We can therefore grant this one final estimate to the conspiracy impact estimators."[14] Armentano's more general conclusion that the electrical manufacturers' price-fixing efforts were ineffectual is also contradicted by an extremely careful Federal Trade Commission staff analysis of detailed product line data subpoenaed from the companies.[15] It found significant price-raising effects in circuit breakers, insulators, and turbogenerators. That study was published too late to be noticed in Armentano's first edition, but from a scholar who aspires to be taken seriously, one might have expected a new footnote in the revised edition or in a briefer 1986 summary of the same arguments.[16] None is to be found.

Granted, some cartels do fail, and many are only limpingly effective. Although Armentano favors outright repeal of the laws against price-fixing, others might view the mixed success record as grounds for amending the law to prohibit only conspiracies that succeed in elevating prices unreasonably. But since, as the Supreme Court recognized in 1927, "the reasonable price fixed today may through economic and business changes become the unreasonable price of tomorrow,"[17] such a policy would require continuous, intrusive monitoring by the antitrust authorities. Because (contrary to Armentano's assertions) price-fixing arrangements provide few if any redeeming merits, there is much to be said for the current policy of prohibiting them all, the successful and unsuccessful alike. Yet to be certain this is the right choice, we should carefully analyze the experience of nations (such as Japan) that have attempted to implement a more discriminating approach. Few careful comparative studies have been carried out, and Armentano has neither cited the existing literature nor attempted his own analysis.

Monopolization

Armentano undertakes a fairly detailed critique of the leading cases alleging illegal monopolization under Sherman Act Section 2, with emphasis on the lower and Supreme Court decisions concerning *Standard Oil* (1911), *American Tobacco* (1911), *United States Steel* (1920), *Alcoa* (1945), *United Shoe Machinery* (1953), and *Kellogg et al.* (1981). He concludes that the courts often drew incorrect conclusions, failing to see that "all of the corporations examined in these classic cases had expanded outputs, reduced prices, and

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engaged in important technological innovation, entirely consistent with competitive behavior and efficient performance. The corporations did not acquire monopoly power . . . nor were they able to exercise any such power" (120).

The conclusion cited here and important parts of Armentano's more detailed analysis rest upon a common fallacy. From the standard textbook demonstration that, relative to competitively organized markets, monopolies restrict output and raise prices, he infers that proof of output expansion and price reduction rebuts the allegation of monopoly. But the simple textbook demonstration is far too simple to support this leap. In other contexts, Armentano recognizes that in these and other cases, the underlying demand and supply conditions were turbulent, not static. Figure 2 shows a monopoly with constant unit costs but expanding demand: D_1 in the first period and D_2 in the second period. Even the purest, most secure, of monopolies, as assumed in the diagram, will maximize profits by expanding output from Q_1 in the first period to Q_2 in the second. Given the exploding demand for automobile fuel, do output increases by Standard Oil show an absence of monopoly power? Clearly not. The United States was experiencing rapid industrial growth during the formative years of the United States Steel Corporation. Steel output increased from 13.5 million long tons in 1901 to 32.5 million tons in 1915. The United States Steel Corporation did increase its output during this period, but far less rapidly than competitors thriving under the umbrella of the high prices it maintained. Emphasizing the findings from confused court pleadings, Armentano concludes that there was no acceptable evidence of any general monopoly power (99). With one trivial exception, he ignores more careful subsequent analyses by scholars, which show that U.S. Steel pursued a high-price, declining dominant (i.e., monopoly) firm strategy.[18]

Figure 3 explores another simple case: static demand, but declining average (and marginal) costs from the first to the second period. The profit-maximizing behavior for a pure monopolist under these conditions calls for output increases and price reductions. During the early years of Standard Oil and American Tobacco, monetary policy (linked to gold supplies) was restrictive and price levels were falling, precipitating William Jennings Bryan's complaint that mankind was being crucified on a cross of gold. Thus, cost curves were falling for reasons wholly outside the purview of the early trusts, inducing price decreases, all else equal. In petroleum, even the tightest monopoly would have reduced prices after the 1901 Spindletop gusher shifted supply curves abruptly outward.[19] And in most of the great antitrust cases, the target industries were just emerging from early, dynamic stages of their life cycles. Rapid technological changes shifted cost curves downward, again inducing price reductions

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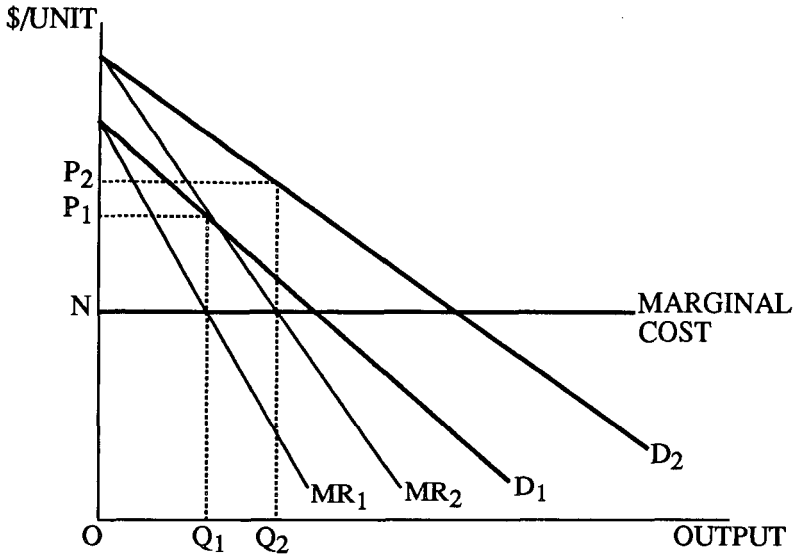

Figure 2

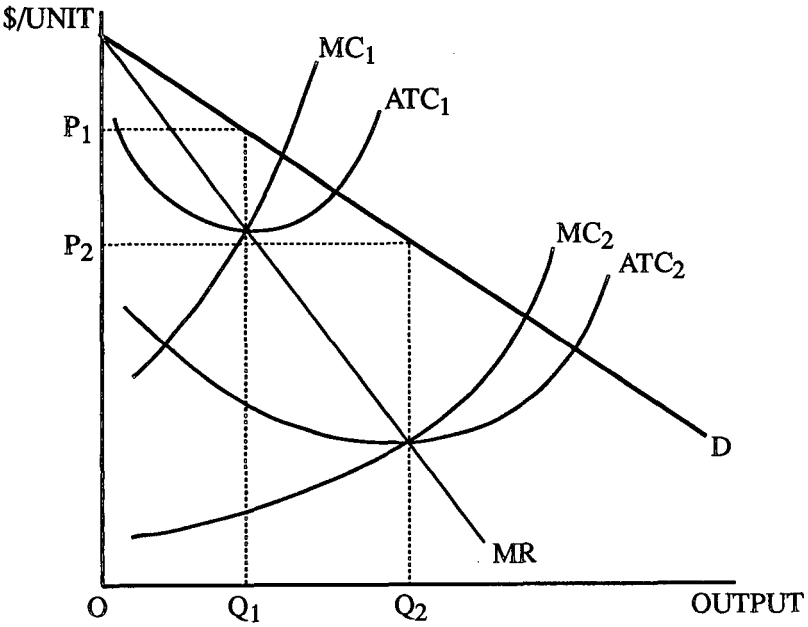

Figure 3

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and output increases. Armentano documents that many of the companies accused of monopolization implemented important technological advances. But he scarcely touches the remaining counter-factual question: would progress have been more or less rapid under alternative, more competitive conditions? There is a vast literature on the question, both general and industry-specific, none of it cited by Armentano.[20] It yields few simple answers. But lacking evidence that a monopolistic market structure was particularly conducive to technological progress, Armentano's conclusion that falling prices imply exemplary economic performance remains unsupported.

Although demonstrating an important point, the analyses of Figures 2 and 3 are far too simple to characterize the complex behavior of early trusts. One alleged aspect of that behavior, at least for Standard Oil and American Tobacco, was predatory pricing. Relying mainly on court records and a seminal article by John McGee,[21] Armentano dismisses the predatory pricing allegations. Had he read instead of merely citing my textbook, he would have found that the Rockefeller papers provide evidence of predatory strategies.[22] Regarding American Tobacco, Armentano argues weakly (91) that because predation was expensive, it was not the "general policy" of American Tobacco. This is true, but Armentano could have presented a more accurate picture had his revised edition cited the important new study by Malcolm Burns showing that price warfare reduced the cost at which American Tobacco took over combat-weary rivals.[23] Work published in the same year as Armentano's first edition has also identified a class of theoretical cases in which predation is in fact a rational entry-deterrence strategy for entrenched monopolists.[24]

I agree with Armentano that criticism of the early monopolization case decisions is richly warranted. But in his single-minded zeal not only to trash the decisions but also to show that the early trusts lacked monopoly power, Armentano misses the most important point of all: how the monopoly power of those firms was *used*, and how the courts reacted to that usage. Standard Oil's policy is best described as charging high prices where it could do so, charging lower prices to limit entry where entry barriers were modest, and taking predatory action against an occasional rival to maintain its credibility. It tried hard to maintain its dominance in a burgeoning market. American Tobacco's policy was on average even more aggressive. U.S. Steel, in contrast, was a model of non-aggressiveness. It said in effect to its rivals, "Come, enter, and thrive under our high-price umbrella." As a result, U.S. Steel's share of the steel ingot market declined from 65 percent in 1901 to 55 percent in 1910 and 46 percent in 1920. Armentano observes (99) that no competitor appeared in court to complain of rapacious practices by "Big Steel," but he fails to see the irony. Standard

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Oil and American Tobacco were found guilty and dismembered for their aggressive practices; United States Steel was exonerated for its lack of aggressiveness. To be sure, the conduct of Standard Oil and (especially) American Tobacco went too far by any reasonable criterion. But a signal was sent to business firms with monopoly power: aggressive low-price policies would be condemned; passive high-price policies would be tolerated. Consumers were the losers, and sixty years would pass before the mischief was undone.

There is a further paradox in all this history. Standard Oil, American Tobacco, and Du Pont were found guilty of monopolization in early antitrust decisions and were broken up. Their principal fragments, subjected to increasingly tough competitive challenges, survive today as strong industrial entities. United States Steel, United Shoe Machinery, and International Harvester escaped early divestiture attempts. Continuing to function in a milieu of soft competition, they became fat and apathetic, and when international competition intensified during the 1960s and 1970s, they proved unfit for the struggle and atrophied. It is doubtful that early antitrust activism, however wrong-headed, did long-run damage to the United States economy. But Armentano is too preoccupied with his argument to notice the point.

Like many others, Armentano believes that in the domain of monopoly, the government is more the problem than the solution. But he goes farther than most, insisting that "monopoly power could not exist without direct governmental support" (42) and that "the sole source of the monopoly power . . . is the state" (277–8). Curiously, patents are included among the "legally restrictive devices" that create monopoly power in the introduction to the first edition (3) but not in the otherwise identical phrase of the revised edition (3), although they reappear as monopoly sources in the revised edition on another page (42). Armentano's discussion of actual historical cases adopts a somewhat more benign stance toward patents, although he sees Du Pont's moisture-proof cellophane patent position as clouding "an unambiguous judgment in Du Pont's favor" (119) and suggests (perhaps facetiously) that the Department of Justice might better have sued the Patent Office rather than Du Pont for monopolization. One seeks in vain a well-articulated conception of the structural conditions under which technological innovation thrives.

Mergers

More could be said, but I must advance to what will be my final topic, the law concerning mergers. There is much to criticize in early Supreme Court decisions interpreting the 1950 Celler-Kefauver Act, which sought

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to remedy weaknesses in the 1914 Clayton Act merger provisions. Armentano scores appropriate points against an easy target. But in concluding (233) that "all mergers can be socially efficient in a plan-coordinating sense and ought to be allowed as a matter of right," he overreaches the relevant theory and ignores much of the evidence. That massive mergers on the scale of U. S. Steel and Standard Oil can confer monopoly power is clear enough. It is harder (but not impossible) to find evidence of significant monopoly power accretions from later mergers because, even when they were weak and lackadaisically enforced, the antitrust laws discouraged mergers like those prevalent around the turn of the century. In passing the Celler-Kefauver Act, Congress indicated that the benefit of the doubt was to be resolved against potentially anticompetitive mergers, and the Supreme Court's early interpretations, though vulnerable in the small, consistently reinforced that presumption. This is a sensible policy *if* on average mergers that significantly increase concentration have no other redeeming merits, such as increases in efficiency. Armentano simply declares that mergers are efficiency-enhancing without examining the voluminous evidence on the point. The materials are far too complex to summarize here, and disputes, both theological and empirical, persist. My own reading of the evidence indicates that some mergers do enhance efficiency, sometimes appreciably, but many efficiency-reducing mergers can also be found, and on average, there is not much reason to believe that the balance is appreciably positive.[25] If this is true, a policy that errs on the side of stopping possibly anticompetitive mergers is not demonstrably irrational. I would prefer to see a more sensitive balance struck, however, and have therefore advocated that the government take seriously the "efficiencies defense" written into its 1984 merger guidelines.[26]

Armentano concludes by stating that the entire antitrust system "has worked . . . to lessen business competition and lessen the efficiency and productivity associated with the free-market process" (271). Like many of his assertions, this one is unsupported by anything that could pass as a careful examination of the evidence. He may be taken seriously by many who are ideologically predisposed to hear the message he propagates. But those who wish to know what economic analysis has to say about monopoly, competition, and antitrust, or to learn what actually happened in the industries at issue in the great antitrust cases Armentano surveys, would be well advised to look elsewhere.

NOTES

1. Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure* (New York: Wiley, 1982).

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2. The total of 14 citations in the *Social Science Citations Index* from 1986 through 1990 falls below the threshold established by Hans Werner Holub, Gottfried Tappeiner, and Veronika Eberharter in "The Iron Law of Important Articles," *Southern Economic Journal* 58 (October 1991), 319.
3. Friedrich von Wieser, *Natural Value*, translated by Christian A. Malloch (London: Macmillan, 1893), 50.
4. See Robert H. Lande, "Wealth Transfers as the Original and Primary Concern of Antitrust," *Hastings Law Journal* 34 (September 1982): 65–151; and F. M. Scherer, "Efficiency, Fairness, and the Early Contributions of Economists to the Antitrust Debate," *Washburn Law Journal* 29 (Winter 1990): 243–55. Compare Robert Bork, "Legislative Intent and the Policy of the Sherman Act," *Journal of Law & Economics* 9 (October 1966): 7–48.
5. See Irene Powell, "The Effect of Reductions in Concentration on Income Distribution," *Review of Economics and Statistics* 69 (February 1987): 75–82; and Katherine McElroy, John Siegfried, and George Sweeney, "The Incidence of Price Changes in the U.S. Economy," *Review of Economics and Statistics* 64 (May 1982): 191–203.
6. For what might be considered natural law support, see Mark 12: 41–43.
7. See Scherer, "Efficiency," in n 4 above.
8. Jeremiah W. Jenks, *The Trust Problem* (New York: McClure, Phillips, 1900).
9. See John Bates Clark, *The Control of Trusts* (New York: Macmillan, 1901), and *Essentials of Economic Theory* (New York: Macmillan, 1907); and John Maurice Clark, "Toward a Concept of Workable Competition," *American Economic Review* 30 (June 1940): 241–56. The American Economic Association's most prestigious award is the John Bates Clark medal.
10. F. M. Scherer, *Industrial Market Structure and Economic Performance* (Chicago: Rand McNally, 1970), 38. The second and third editions carry almost identical wording.
11. *Ibid.*, 6.
12. See U.S. House of Representatives, Committee on Small Business, Ad Hoc Subcommittee on Antitrust, the Robinson-Patman Act, and Related Matters, Hearings, *Recent Efforts To Amend or Repeal the Robinson-Patman Act*, Part 2 (Washington, D.C.: 1976), 147 and 186.
13. Compare "Excerpts from TV Interview with Iraqi Official," *New York Times*, August 17, 1990: A-5.
14. Ralph G. M. Sultan, *Pricing in the Electrical Oligopoly*, vol. 2 (Boston: Division of Research, Harvard Business School, 1975), 348. In Sultan's prepublication manuscript, of which I was a reader, a similar finding appeared in the main text.
15. David F. Lean, Jonathan D. Ogur, and Robert Rogers, *Competition and Collusion in Electrical Equipment Markets* (Washington, D.C.: Federal Trade Commission staff report, July 1982), 60–76.
16. Dominick T. Armentano, *Antitrust Policy: The Case for Repeal* (Washington, D.C.: Cato Institute, 1986).

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17. *U.S. v. Trenton Potteries Co. et al.*, 273 U.S. 392, 396.
18. George J. Stigler, "The Dominant Firm and the Inverted Umbrella," *Journal of Law & Economics* 8 (October 1965): 167–73; Donald O. Parsons and Edward J. Ray, "The United States Steel Consolidation," *Journal of Law & Economics* 18 (April 1975): 181–220; and Hideki Yamawaki, "Dominant Firm Pricing and Fringe Expansion: The Case of the U.S. Iron and Steel Industry," *Review of Economics and Statistics* 67 (August 1985): 429–437. The analysis by Parsons and Ray is cited out of context and rejected by Armentano.
19. See Daniel Yergin, *The Prize* (New York: Simon & Schuster, 1990), 82–95.
20. On petroleum, steel, and aluminum, see Edwin Mansfield, "Size of Firm, Market Structure, and Innovation," *Journal of Political Economy* 71 (December 1963): 556–76; John Enos, "Invention and Innovation in the Petroleum Industry," in the National Bureau of Economic Research conference volume, *The Rate and Direction of Inventive Activity* (Princeton: Princeton University Press, 1962): 299–321; and M. J. Peck, "Inventions in the Postwar Aluminum Industry," also in *The Rate and Direction of Inventive Activity*, 279–98.

    For more wide-ranging surveys accessible at the time Armentano wrote, see Scherer, *Industrial Market Structure and Economic Performance*, ch. 15; and Morton Kamien and Nancy Schwartz, "Market Structure and Innovation: A Survey," *Journal of Economic Literature* 13 (March 1975): 1–37.
21. John McGee, "Predatory Price Cutting: The Standard Oil (N.J.) Case," *Journal of Law & Economics* 1 (October 1958): 137–69.

    Armentano argues that the *Standard Oil* and *American Tobacco* court records contain only meager evidence of wrong-doing. He fails to recognize that the government prosecutors relied heavily upon the voluminous record compiled in reports by the Bureau of Corporations, established in 1903 by Theodore Roosevelt. Armentano makes no use of those materials, which were the richest contemporary source on the major trusts.
22. Scherer, *Industrial Market Structure and Economic Performance*, 275–6. For more recent documentation, see the third edition (co-authored with David Ross), 388–91 and 450–53.
23. Malcolm Burns, "Predatory Pricing and the Acquisition Costs of Competitors," *Journal of Political Economy* 94 (April 1986): 266–96.
24. See e.g. Paul Milgrom and John Roberts, "Predation, Reputation, and Entry Deterrence," *Journal of Economic Theory* 27 (August 1982): 280–312.
25. See e.g. David Ravenscraft and F. M. Scherer, *Mergers, Sell-offs, and Economic Efficiency* (Washington, D.C.: Brookings, 1987), which focuses mainly on the conglomerate mergers typical during the 1960s and 1970s; and Scherer and Ross, *Industrial Market Structure and Economic Performance*, 3rd ed., 167–74, surveying the literature on a wider array of merger types.
26. U.S. Department of Justice, Antitrust Division, *Merger Guidelines* (Washington, D.C.: June 1984), 22.

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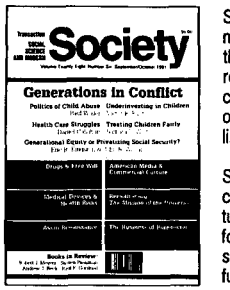

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Richard N. Langlois

THE CAPABILITIES OF INDUSTRIAL CAPITALISM

Alfred D. Chandler, Jr. is a worthy successor to Joseph Schumpeter as analyst of the large corporation and its role in economic growth. His new book, Scale and Scope, *a comparative history of corporate capitalism in the U. S., Britain, and Germany, is animated by a vision of the large corporation as the leading force in economic growth, outdistancing older owner-managed forms of organization with a superior ability to invest entrepreneurially in large-scale production, mass distribution, and professional management. Chandler's account implicitly relies on a dynamic "capabilities" theory of competition that reveals the fundamental irrelevance of neoclassical theory and policy, including antitrust policy. In some ways, however, Chandler's vision is too narrow, underplaying the role of markets in economic growth. One needs to know how economic systems build capabilities, not merely how the corporate institution does so. Moreover, there is reason to think that the last few decades have seen an organizational revolution with a dynamic rather different from the one that animates Chandler's account. As a result, Chandler's work is important for understanding the present-day issues of industrial competitiveness, but is only one piece of the puzzle.*

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Richard N. Langlois, Professor of Economics, University of Connecticut, Storrs, CT 06269-1063, telefax (203) 486-4463, is editor of *Economics as a Process: Essays in the New Institutional Economics* (New York: Cambridge University Press, 1986) and lead author of *Microelectronics: An Industry in Transition* (London: Unwin Hyman, 1988). He would like to thank Fred Carstensen, Alfred Chandler, Paul Robertson, and the editor for helpful comments and discussions.

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In 1932, Adolf Berle and Gardiner Means made an important discovery. The American economy was no longer driven by small, owner-operated businesses, but had come to be dominated by the large corporation.[1] More interestingly, they noticed, corporations were coming increasingly to be managed by salaried professionals rather than by their equity owners. From this the authors concluded that one could no longer count on markets to discipline corporations, and that one could expect managers to "plunder" stockholders for personal gain. Here at once were fanned the two great populist fears about the corporation: concentrated power and the separation of ownership from control.

Berle and Means were long on ominous statistics but short on analysis of the corporation as an institution. What was its rationale, its logic, its dynamic? What was its role in the economic process? Neoclassical economic doctrines were not much help. Like Berle and Means, they started from the assumption of small, owner-managed firms as a normative standard, and thus what light they could shed revealed the same dark possibilities of concentration and plunder.[2] On the whole, indeed, the Depression decade of the 30s was an ideological low-point for the large corporation, an institution never blessed in any era with favorable press.

But the corporation was not entirely without its defenders. Perhaps the most important was Joseph Schumpeter, Harvard economist by way of Vienna, whose *Capitalism, Socialism, and Democracy* appeared a decade after Berle and Means.[3] If one takes the trouble to look at economic history, Schumpeter observed, one cannot conclude that the development of the large enterprise has brought monopolistic restriction of output or corporate plunder. Quite the reverse.

> As soon as we go into details and inquire into the individual items in which progress was most conspicuous, the trail leads not to the doors of those firms that work under conditions of comparatively free competition but precisely to the doors of the large concerns—which, as in the case of agricultural machinery, also account for much of the progress in the competitive sector—and a shocking suspicion dawns upon us that big business may have had more to do with creating [the modern] standard of life than with keeping it down.[4]

To Schumpeter, the power of the corporation, over which Berle and Means had fretted, was in fact what turned the engine of capitalist growth. The competition that drives the large enterprises is not—and ought not be—the polite competition of a large number of small powerless firms. "The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of pro-

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duction or transportation, the new markets, the new forms of industrial enterprise that capitalist enterprise creates."[5]

Schumpeter provided a provocative vision of the large corporation and its role in history. But, despite his appeal to the past, he did not actually provide us with much history. The same cannot be said of Alfred D. Chandler, Jr., the dean of modern business historians,[6] who has indeed taken the trouble to look at economic history. And what he sees is Schumpeter's corporation, not that of Berle and Means or the neoclassical economists.

The Dynamics of Industrial Capitalism

In *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1990), Chandler offers a voluminous set of "collective histories" of corporate enterprise through World War II. Despite the encyclopedic detail, however, his objective is persuasive, not antiquarian. As the subtitle suggests, Chandler is out to distill the essence of the modern corporate enterprise and demonstrate its role in economic growth. Those enterprises, he writes, "whose collective histories are presented in this study—those enterprises that were most responsible for the economic growth of the world's three largest industrial nations—have provided a fundamental dynamic or force for change in capitalist economies since the 1880s" (4).

The basic argument is not new to this volume. Chandler has been telling much the same story for some three decades.[7] But there are two things distinctive about the new book. First, it is a comparative exercise, looking at the development of the large corporation not only in the United States but also in Britain and Germany. Second, the vision of the corporation that emerges from *Scale and Scope* seems clearer and stronger—or at least narrower—than in the earlier books.

What is Chandler's thesis? It is, in a sense, an organizational variant on Adam Smith's famous observation that the division of labor grows with the extent of the market. As technological change—notably the railroads and the telegraph—lowered the costs of transportation and communication in the nineteenth century, the potential arose for high-volume production enjoying economies of scale. The large corporation sprang up as an organizational response to these emerging possibilities. The firms that were most successful, those that contributed the most to economic growth, were the ones that built and maintained the organizational capabilities necessary to exploit economies of scale (and later of scope).[8] Building such organizational capabilities required an investment in the capital equipment necessary for high-volume production. It meant investing in a

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regional, national, or international network of marketing and distribution. And it also meant turning over the reins of management to a hierarchy of salaried professionals. "It was this three-pronged investment in production, distribution, and management," Chandler writes, "that brought the modern industrial enterprise into being."

> The first entrepreneurs to create such enterprises acquired powerful competitive advantages. Their industries quickly became oligopolistic, that is, dominated by a small number of first movers. These firms, along with the few challengers that subsequently entered the industry, no longer competed primarily on the basis of price. Instead they competed for market share and profits through functional and strategic effectiveness. They did so *functionally* by improving their product, their processes of production, their marketing, their purchasing, and their labor relations, and *strategically* by moving into growing markets more rapidly, and out of declining ones more quickly and effectively, than did their competitors. (8, emph. original)

It would be hard to find a clearer statement anywhere of the notion of Schumpeterian dynamic competition.

Entrepreneurial Success, Entrepreneurial Failure

Chandler's story is not a deterministic one. Although it sometimes seems as if economic preconditions led naturally to the development of the large corporation, usually it is clear that human judgment and accidents of history mattered: there were roads not taken and out-and-out blunders.

As far as economic preconditions are concerned, Chandler agrees with a number of writers[9] that the large internal market within the United States led more naturally to the formation there of capabilities for large-scale production and distribution than did the more fragmented urban markets in Europe. Because of the highly rural character of the population, the railroad had a greater impact in America, and mass distribution—as practiced by Sears and Montgomery Ward, for example—mattered more. It is not surprising, then, that the U. S. led the way in the development of the large corporation. Yet success, at least at the level of the firm, was never inevitable. Henry Ford in automobiles and Judge Gary of U. S. Steel both dissipated their firms' capabilities and allowed others to approach or surpass them.

But the most interesting story of paths not taken is the failure of the British to develop the corporate institution and the competitive capabilities that go with it. Here Chandler enters the much-trod ground of the British entrepreneurial-failure debate.[10] As the pioneer of the First Industrial Revolution, Britain was well out in front when the so-called Second

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Industrial Revolution—driven by the innovations in transportation and communication mentioned earlier—rolled around. Many of the industries from the earlier period, notably textiles, offered scant potential for economies of scale. Britain had also invested heavily in earlier infrastructure, including an extensive canal system. The kingdom was also smaller and more urban than the U. S. All of this meant that the railroads and telegraph made less of an impact. Moreover, its relatively sophisticated, diverse, and close-at-hand urban consumers made mass marketing of mass-produced goods less attractive. Nonetheless, Chandler thinks, there were times and places in which British businesses had the potential to jump in front if they had only adopted the corporate form and built the necessary capabilities. For example, in light machinery, electrical equipment, chemicals, and metals, the British squandered a potential that was as large as any in the U. S. or Germany (275). They did so by failing to make the necessary entrepreneurial investments in production, distribution, and management.

Why? Chandler knows the proximate cause, but is fuzzy on the ultimate cause. The immediate problem was the British attachment to the family firm, a mode of organization Chandler calls personal capitalism. That is, Britain's legacy from its industrial lead was the kind of owner-managed firm idealized in neoclassical theory and mourned by populists. As markets—and with them firms—grew, British businessmen opposed consolidation and rationalization because they feared the loss of family control. Thus they tried to manage growing concerns from small central offices, and predictably failed to take the bold, entrepreneurial steps of their American and German rivals. But why? Chandler mentions the familiar cultural arguments, but in the end leaves the issue unresolved. The matter is particularly puzzling because, in all three countries, the development of the large corporation often came through stages of merger and consolidation. First came federations or trade groups of small firms (trying contractually to share markets and limit competition), followed by holding-company trusts, followed in turn, especially in the U. S. and Germany, by rationalized, competitive, professionally managed corporations employing the multidivisional organizational form. The British owners were especially recalcitrant in yielding control, often thereby preventing the move to the third stage. But why didn't vested interests in the U. S. and Germany oppose rationalization as strongly?

The Irrelevance of Antitrust

Germany affords an equally interesting comparative perspective, but one with quite different messages. In terms of economic preconditions, Ger-

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many fell between the U. S. and Britain. It was not as large, new, or rural as the U. S., but it was bigger, industrially newer, and more rural than Britain. The railroads made more of an impact. But along another dimension, Germany was a lot less like the U. S. than was Britain. Chandler makes a point of describing Germans as practicing "cooperative" capitalism, in which inter-firm cooperation was the norm and cartels were welcomed openly. In both the U. S. and Britain, cartel agreements were unenforceable under common law, whereas German law allowed for enforceable price-fixing and market-sharing contracts. In America, this difference was sharpened by the Sherman antitrust act of 1890, which formally outlawed cartel agreements. Chandler asserts—or at least allows us to infer—that the Sherman Act was helpful in directing the competitive energies of American firms away from restraint of trade and toward the building of capabilities: because cartels were forbidden but mergers were not, American firms were more inclined to merge than to collude, which made rationalization easier. Yet Germany, the land of the cartel, was somehow able to rationalize and to create capabilities without antitrust laws of any kind. And Britain's common-law hostility to cartels was no spur to rationalization.

The German case suggests the relative unimportance of antitrust policy to the development of the large corporation—let alone to comparative economic success. Indeed, this is something of a theme in *Scale and Scope*, albeit one that emerges out of silence. Chandler is convincing that the hated trusts of the late nineteenth century were actually in the business of increasing output, lowering costs, and competing vigorously. It is true that these firms, like all organizations, would have preferred not to compete. And they certainly did try to limit competition, especially price competition, through various kinds of inter-firm arrangements. But cartels always proved fragile. They were especially poor at preventing non-price competition, the competition in functional and strategic effectiveness that is the strong suit of the modern corporation. Many firms recognized that competitive advantage through superior capabilities was in the end an alternative far superior to limiting competition. Chandler offers a telling quotation from a letter by one Albert Moxham to his boss Coleman du Pont, one of the trio of cousins who consolidated and rationalized the fragmented American explosives industry at the turn of the century:

> I have been urging upon our people the following arguments. If we could by any measure buy out all competition and have an absolute monopoly in the field, it would not pay us. The essence of manufacture is steady and full product. The demand of the country for powder is variable. If we owned all therefore when slack times came we would have to curtail product to the

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> extent of diminished demands. If on the other hand we control only 60% of it and made the 60% cheaper than others, when slack times came we would still keep our capital employed to the full and our product to the maximum by taking from the other 40% what was needed for this purpose. In other words, you could count upon always running full if you make cheaply and control only 60%, whereas, if you own all, when slack times came you could only run a curtailed product. (76).

The successful firms were the ones who adopted this strategy of superior efficiency, not those who sought monopoly.

Yet many successful first movers were in fact broken up by the axe of early antitrust policy. Chandler is peculiarly silent about the virtue of these dismemberments. In fact, we are left with the strong impression that they were largely either irrelevant or positively harmful. For Chandler, the firms broken up—Du Pont along with Standard Oil and American Tobacco—were dynamic innovators who were building competitive advantage through rationalization and large-scale production. At best the breakups created several dynamic competitors where there had been few domestically (but of course several internationally). At worst, though, the breakups destroyed capabilities, and the fear of breakup deterred the building of capabilities. This last possibility Chandler thinks is a partial explanation for the failures of U. S. Steel, which declined to press its competitive advantages lest it suffer the fate of Standard Oil or Du Pont. (Judge Gary's personal aversion to competition is offered elsewhere as another part of the explanation.)

As to the Sherman Act itself, Chandler is suitably pious. He is puzzled by the ease of its passage, and assumes therefore that it "was more an expression of fundamental American values than a result of pressure groups at work"(72)[11]. Even if this is true, however, what was at work was a cultural aversion to bigness *per se*, not to inefficient restraints on trade. Unlike many other students of the history of antitrust,[12] Chandler thinks that early enforcers were concerned not with size but with inefficiency, and spared those large combinations that increased output and lowered costs (79). Thus the only result of antitrust policy was to outlaw interfirm agreements. This, Chandler claims, had a profound effect on the shape of American industry. But, once again, it doesn't seem to have differentiated the U. S. from Germany in overall competitive competence.

The Capabilities Theory of the Firm

In many ways, of course, it should not be entirely surprising that antitrust policy is at best tangential to Chandler's account of the corporation. As I

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have argued, Chandler's vision is one of dynamic competition, a vision, as Schumpeter emphasized, that is fundamentally at odds with the neoclassical picture of competition that forms the intellectual—if not necessarily the political—basis of antitrust policy. Neoclassical theory had its beginnings in the simple static models of price competition developed by the French mathematician Cournot in 1838. His wonderfully Gallic starting point was a mineral-water monopolist. Such a firm produces less and charges a price higher than is socially optimal. As the number of firms selling mineral water increases, the industry's output increases and prices decline until, with a large number of firms, they approach socially optimal levels. All later neoclassical models share this logical structure and this obsession with the numbers, what in the jargon is called market concentration. An obsession with price collusion, which could raise price and lower output for any given level of concentration, is the other neoclassical legacy to antitrust policy. None of this is to say that there is anything logically incorrect about the neoclassical theory. It is simply irrelevant to the world Chandler describes.

What theory *is* relevant? It is no accident, I think, that Chandler talks continually about the *capabilities* of the corporation. By using this language Chandler connects with a developing body of theory that might loosely be called the capabilities view of the firm,[13] a view that Chandler himself has influenced. Unlike the neoclassical theory, this approach does not take production in the economy to be a purely technical question, a matter of combining given inputs according to known blueprints. Instead, it sees economic activity as requiring skills and organization. Neither of these is in any sense "given." Economic actors must struggle with what Herbert Simon, in a famous phrase, called "bounded rationality."[14] And what those actors know is mostly know-how, the inarticulate form of knowledge Michael Polanyi described as "tacit."[15] As a result, capabilities—individual and organizational skills—develop in idiosyncratic and historically dependent ways.

In this view, competition is the learning process through which capabilities are created in the economy.[16] Sometimes the competitive process lends itself to the smooth augmentation of capabilities—a learning or experience curve. Sometimes, however, competition generates new capabilities that render obsolete existing bodies of skill and organization—Schumpeter's famous process of "creative destruction." Quite apart from its value as pure history, Chandler's work, in this book and before, is important for the attention it pays to the role of the corporation as an institution for the creation and preservation of economic capabilities.

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A Paean Too Loud?

Scale and Scope helps to vindicate the large corporation of any charges of economic "sabotage" and indeed to raise that institution to a hallowed niche in the ideological pantheon of capitalism. One may worry, however, whether it has raised the corporation to somewhat *too* lofty a place. What has happened to "the market"? Where in Chandler are the benefits of coordination and knowledge-creation that so many writers have assigned to it?[17] One could easily read Chandler as suggesting that administrative coordination by hierarchies of trained professional managers has proven so effective as to render obsolete "the market" as traditionally understood.[18]

The difficulty here is not so much the cloak of power with which Chandler invests the corporation. Rather, the problem lies with Chandler's interpretation of the *nature* of that power. There are, in fact, two related problems with Chandler's vision, and both are arguably matters of emphasis. One is Chandler's too-exclusive focus on the corporate form as an institution for creating capabilities. The other is Chandler's vague and often misleading characterization of the "managerial" aspect of managerial capitalism.

"The market" is a term with many meanings. The idea that the large corporation has superseded "the market," and therefore that its success has rendered "the market" obsolete, is a deduction based in part on a confusion of two meanings of the word. It is true, as Ronald Coase long ago pointed out, that one can view the firm as having superseded the market.[19] But by the market Coase meant coordination through price-mediated spot contracts. This is scarcely the same thing as "the market" in the political sense. The market in this larger sense means a system of private property and free contract, with minimal administrative intervention by the state. To have superseded the market in the narrow sense is not to have superseded the market in the larger sense. As Thomas Sowell has observed, there is too often tendency to "refer to 'the market' as if it were an institution parallel with, and alternative to, the government as an institution. The government is indeed an institution, but 'the market' is nothing more than an *option* for each individual to choose among numerous existing institutions, or to fashion new arrangements suited to his own situation and taste."[20] The corporation is one of those arrangements that springs up within the confines of "the market."

Having said this, of course, the success of the large corporation might remain potentially troubling even if it reflects a fundamental supersession only of markets in the narrow sense. Happily, such would be a misreading of fact—and even of Chandler's story. Chandler argues that the success of the corporate form was linked to investments in high-throughput produc-

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tion and mass distribution. In many if not most cases, this certainly implied integration of manufacturing functions and the elimination of middlemen. But it did not really imply massive vertical integration. The corporation often took purchasing out of the hands of brokers and middlemen—but it still purchased components and inputs. For the most part, Chandler seems to think, vertical integration was (and ought to be) merely "defensive," that is, designed to ensure secure flows of components, materials, and sales. Integration beyond this has no economic function, and, as in the case of Ford in the 1920s, can be positively dysfunctional.

Reading *Scale and Scope* carefully, one sees that, although the corporation *led* economic growth, it was supported at every stage by an increasingly dense network of market relations. The auto industry relied (and continues to rely) on thousands of parts suppliers. That industry as well as agricultural equipment relied on franchised dealers for retail sales. Consider also the railroads, which Chandler has described as the seedbed of managerial capitalism.[21] Despite their systemic character, railroads were quite able to manage via contracts a nationwide network of independently owned lines. Moreover, tankers, refrigerated cars, and other special facilities were owned by shippers, not the railroads. And the entire business of passenger travel was under contract to Pullman. Thus, Chandler's account provides a kind of back-door or second-hand tribute to markets as agents of economic growth.

Capabilities and Economic Change

To put markets and "administrative hierarchies" in their proper perspective, however, we need to turn back to Schumpeter. That is, we need to look at how markets and hierarchies generate and respond to economic change and innovation.[22] This is something Chandler's history will help us with, even if his analytical framework disguises some important issues.

First of all, we need to give markets—"the market" in the narrow sense—more credit as repositories and generators of economic capabilities. The price system is an often elegant mechanism for linking together decentralized capabilities, one that has a marvelous ability to economize on information transmission.[23] But it is wrong to think that markets use *only* price information. Contracting requires many other kinds of messages, which are often transmitted in the same manner as in a firm. In short, as Alfred Marshall understood, both firms and markets "are structures for promoting the growth of knowledge, and both require conscious organization."[24] The issue is this. How do firms and markets, both understood as complex organizations, generate and respond to various kinds of change?

The answer depends on the structure of the change involved. In some

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cases, the virtues of markets—their decentralization—can be a vice. When change is "systemic,"[25] that is, when it requires simultaneous and coordinated adjustments in many different spheres of activity, a decentralized system may prove harder to nudge onto a new path than a system under unified ownership. This may be so because of vested interests or simply because it is more costly to inform and persuade many independent agents than simply to do it oneself.[26] Such costs may be especially high in the case of large-scale systemic innovation, since, because the capabilities required to make the innovation work are new virtually by definition, those capabilities are simply not available for purchase on the market. An example would be Henry Ford's moving assembly line. Because of this systemic change in the way parts were assembled, it was cheaper for Ford to make the parts himself than to teach the innovation to outside suppliers; and what had been a highly disintegrated industry became a highly integrated one.[27] Followers like General Motors, however, could take advantage of the eventual spread of Ford's ideas to the market, and needed far less vertical integration.

In short, then, the coordinating virtues of managerial capitalism lie not, as Chandler frequently implies, in the ability of managers rationally to plan and coordinate high-volume throughput. In a static world, markets can do that just fine. The real virtue of an internal hierarchy rests in its ability to effect large-scale rearrangements of economic capabilities in certain circumstances—to make, as Chandler would put it, the necessary large-scale investments in mass production and distribution. The role of professional management in this process is, in fact, a centrifugal not a centripetal one. Once the large-scale investments have been made, once the economic capabilities have been forcibly rearranged, the imperative then becomes one of *decentralization*. This is so for all the reasons now well known to erstwhile socialist regimes. As Chandler has documented, the successful firms were the ones which not only invested in new capabilities but also adopted the so-called multidivisional (or M-form) structure. Under this system, day-to-day decision making is removed from the lap of top management and deposited with separate operating divisions, each of which "could theoretically act as an independent business enterprise" (14). Successful administrative coordination turns out to involve a kind of simulation of the market. Indeed, the problem with British personal capitalism was not that the British firms were too market-like but rather the opposite: in trying to run far-flung enterprises from small central offices, the British were encountering the fundamental problems of central planning.

The M-form structure does, however, differ from the market (that is, from a set of fully independent enterprises) in one important respect. Top management of the multidivisional corporation retains the crucial strategic

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function. The job of top management is to take the longer view and to reshape the firm's capabilities when necessary. This means, among other things, seeking out new markets and abandoning declining ones. Bogged down in day-to-day management, the non-divisionalized British capitalists lacked the longer-run perspective of their American and German counterparts, and were unable to act entrepreneurially. As Frank Knight understood long ago, the real *raison d'être* of the corporate form is its ability to change and react to change. "When uncertainty is present," he wrote, "and the task of deciding what to do and how to do it takes the ascendancy over that of execution, the internal organization of the productive groups is no longer a matter of indifference or a mechanical detail. Centralization of this deciding and controlling function is imperative, a process of 'cephalization,' such as has taken place in the evolution of organic life, is inevitable, and for the same reasons as in the case of biological evolution."[28]

Markets As Networks of Capabilities

Lest the reader think I have joined Chandler in the adoration of the corporation, however, let me add a dollop of perspective. The successful creation of capabilities within the corporation, I have argued, is likely when it is somehow costly to acquire access to those capabilities though decentralized market arrangements. This would be the case when either the capabilities available in the market are very different from those the entrepreneur requires or, what is a special case of the same thing, when market capabilities are simply few or non-existent. How costly it is to develop capabilities in the market may in turn depend on how quickly the market is asked to develop those capabilities. This suggests that the extent of vertical integration—the extent of the primacy of the corporation—may depend not so much on the extent of the market or the level of technical advance as on the *rate of change* of demand and technology.[29] Thus an industrial leader that came to primacy slowly may be less "corporate" than a follower nation industrializing quickly along a well-marked path. And the supremacy of the large enterprise in, say, the nineteenth-century United States or present-day Korea may reflect less the inherent virtues of the corporation than the relative paucity of market capabilities in those follower economies.

More significantly, there may be reasons why markets are a superior form of organizational capabilities for economies at the leading edge of development. Advance in such economies comes from pushing forward the frontier, not from imitating. The kinds of uncertainties involved are much more serious. In such an environment, knowledge and capabilities arguably advance more rapidly when there is a diversity of simultaneous approaches.[30] This may be more likely in a world of many independent

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organizations. It may well be, of course, that the corporation, with its large-scale investments in complementary assets, may be best able to exploit new developments once their outlines have become clear enough for managers to react strategically.[31] But markets may often be indispensable for making advances possible in the first place, especially when those advances involve the radically new. Silicon Valley obviously comes to mind.

The advantages of a decentralized market network are greater the smaller the costs of coordinating change across the network. When change is not systemic but autonomous—that is, when change can take place locally without affecting the larger system—the coordinating benefits of administrative hierarchies are of little value. When can change be autonomous? When the system is a modular one, in which common standards guide the connections among the parts. Examples would include the microcomputer, with its modular bus and standard operating system, as well as a number of mechanical industries in which standards permit the use of off-the-shelf parts. In the case of such modular systems, the market is often able to organize capabilities far more extensive than even the largest corporation could marshal.[32]

Indeed, large corporations are often a central part of such networks. This may be particularly true in Japan, where, as Ken-ichi Imai has argued, the large corporation practices "network industrial organization" rather than vertical integration in the American mold.[33] The large concern is the so-called *kaisha* or lead firm, which orchestrates the capabilities of the network. Even in the product-development stage, the Japanese corporation relies heavily on the market, reaching for standard off-the-shelf parts to a far greater extent than in the U. S.[34] One might argue that this system is a further advance of "cephalization" in Knight's sense, a structure that, as Imai describes it, is not only obsessed with learning but which learns in a decentralized way.[35]

The Present and Future

Chandler does not deny that the fundamental source of competitive capability in the corporation has changed over time. He agrees with other writers[36] that, since World War II, the source of competitive advantage in the large corporation—and with it the source of industrial leadership in the U. S.—has shifted from the exploitation of economies of scale to the exploitation of economies of scope. By this he means that advantages grounded in high-throughput manufacturing and distribution have increasingly given way to advantages grounded in the extension of capabilities into domains that are secondary to the initial business.[37] Originally, such economies of scope were of the sort understood by neoclassical

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theory. For example, meat packing firms took advantage of the by-products of their trade to move into leather, soap, fertilizer, etc. Beginning with the late nineteenth-century German dyestuffs industry, however, firms took advantage of economies of scope grounded in generic technological and marketing capabilities, which had often been created or bolstered by formal research and development. Du Pont used its knowledge in making and marketing explosives to move into a wide range of chemicals; General Motors used its capabilities in internal-combustion engines to create the diesel-locomotive industry; and General Electric and Westinghouse used their knowledge of electric generators and motors to enter the manufacture of a broad array of electrical equipment. This process of related diversification fueled by R&D was particularly important to the success of American firms after the Second World War.

Chandler does not extend his history to this later period, but he does provide a speculative chapter on present-day developments, including the debate over American competitiveness now raging. A kind of successor to the British entrepreneurial-failure debate, the modern discussion worries that Japan (perhaps with various Asian NICs in tow) will come to outpace the U. S. in the Third Industrial Revolution the way America outpaced Britain in the Second. This new industrial revolution is based on post-World War II innovations in aviation and electronics that, like railroads and the telegraph before them, lowered costs of transportation and communication. Chandler is not upbeat. Despite notable successes like IBM, he thinks, the recent evolutionary trend in American managerial capitalism has not been a healthy one.

Things began to go wrong in the 1960s with the wave of conglomerate diversification, that is, with diversification by companies into areas wholly unrelated to their "core competence."[38] ITT was the paradigm of this phenomenon. Originally an international maker of telephone switching equipment, it bought, among other things, an insurance company and the maker of Hostess Twinkies. Chandler sees this as an inefficient practice, with many of the disbenefits of overextended British personal capitalism. There is no historical precedent for such unrelated diversification, he notes, except for German *Konzerne* during the hyperinflation of the 1920s. What is interesting—and what Chandler doesn't mention—is that it is precisely inflation, in this case the Lyndon Johnson inflation of the 1960s, to which many have pointed as the cause of the wave of conglomerate mergers. The conglomerate is in effect an "internal capital market" that invests in a diversified portfolio of unrelated interests.[39] But why? The stock market is much better at diversifying away risk than is such an arrangement, and it has many other advantages as well. In a time of inflation, the argument goes, price signals become distorted as managers

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find it difficult to disentangle changes in relative prices (that is, real prices) from changes in the price level. In such a world, the internal information and control within a conglomerate may have advantages that outweigh the disadvantages.[40]

But, in any case, the trend in the less-inflationary 80s was the opposite one, the breaking apart of corporate holdings. This, along with institutional investing, the market for corporate control, and various other financial innovations of the last decades, Chandler also finds troubling. With all this attention to buying and selling corporations, he fears, the economy may be sacrificing long-term investment in capabilities for short-term gain. Notice that we have come full circle from Berle and Means. Instead of worrying that managers might plunder stockholders, Chandler is anxious to protect farsighted managers from the plunder of nearsighted owners.[41]

Chandler is certainly right that the creation and maintenance of capabilities is the important issue in the American competitiveness debate. He may well be right about the effects of corporate finance. On the other hand, he presents little evidence to back up his speculations. One also cannot help remembering that earlier waves of financial remodeling of the economic system were equally worrisome to contemporaries. Rationalization—creative destruction—is not a tidy business. We may not know the answer until Chandler (or his successor) writes the sequel to *Scale and Scope*, a sequel whose vision of the capitalist dynamic encompasses, but does not limit itself to, the large corporation of the late nineteenth and early twentieth centuries.

NOTES

1. Adolf A. Berle, Jr., and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1932).
2. As I will suggest below, neoclassical theory still addresses the issue of concentration in much the same static way it did in the 1930s. On the issue of the separation of ownership from control, however, modern theory has produced a spirited and persuasive defense of the corporate form. It is true, the theory holds, that such separation creates costs, what are now termed the agency costs of managers pursuing goals different from those of the owners. But such costs are in fact mitigated by a number of devices, including stock markets (in which stockholders vote with their feet); the market for managerial talent (which rewards conscientious managers and penalizes bad ones); boards of directors; and the market for corporate control (that is, the threat of a takeover). More telling, however, is the observation that Berle and Means neglected the *benefits* of the separation of ownership from control. Unbundling the two functions allowed efficient specialization into management and risk-bearing. The first of these spe-

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cializations is an important theme of this essay. The latter—specialization in ownership—lowered the cost of capital dramatically by tapping the funds of small investors uninterested in management. It also reduced risk for all investors by permitting them more easily to diversify their portfolios. See Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3 (1976): 305–60.

3. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper and Brothers, 1942).
4. Ibid., 82.
5. Ibid., 83.
6. Indeed, some would credit Chandler with having single-handedly created the present-day field of business history.
7. The most important of his earlier works are *Strategy and Structure* (Cambridge, Mass.: MIT Press, 1962) and especially *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: The Belknap Press of Harvard University Press, 1977).
8. In neoclassical theory, economies of scope exist in the "production function" when it is cheaper per unit to produce (or distribute) two different goods together than to produce (or distribute) them separately. For example, there may be economies of scope to growing apples and producing honey together, since the bees pollinate the apple trees and the trees provide food for the bees. (Whether such economies of scope require joint ownership of the relevant assets is another matter. See David J. Teece, "Economies of Scope and the Scope of the Enterprise," *Journal of Economic Behavior and Organization* 1, no. 3 [1980]: 223–47.) Although he cites the neoclassical literature, however, Chandler does not in fact mean by this term what neoclassical writers mean, a point I cannot develop here. The term is useful as a metaphor, however.
9. Nathan Rosenberg, "Why in America?" in Otto Mayr and Robert Post, eds., *Yankee Enterprise: the Rise of the American System of Manufactures* (Washington, D.C.: Smithsonian Institution Press, 1981); Richard R. Nelson, "U. S. Technological Leadership: Where Did It Come From and Where Did It Go?" *Research Policy* 19, no. 2 (April 1990): 117–32; and Gavin Wright, "The Origins of American Industrial Success, 1879–1940," *American Economic Review* 80 (September 1990): 651–8.
10. For an excellent bibliography of which, see S. B. Saul, *The Myth of the Great Depression, 1873–1896* (London: Macmillan, 2nd ed., 1985).
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15. Michael Polanyi, *Personal Knowledge* (Chicago: University of Chicago Press, 1958).
16. F. A. Hayek has long argued that the discovery of new knowledge—not the setting of some optimal price with given knowledge—is the essence of competition. See his "The Meaning of Competition," in his *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948) and "Competition as a Discovery Procedure," in his *New Studies in Philosophy, Politics, Economics, and the History of Ideas* (Chicago: University of Chicago Press, 1978). See also Paul J. McNulty, "Economic Theory and the Meaning of Competition," *Quarterly Journal of Economics* 82 (1968): 639–56.
17. Most notably F. A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, no. 4 (1945): 519–30.
18. This is a leap of logic that John Kenneth Galbraith took long ago in *The New Industrial State* (Boston: Houghton-Mifflin, 1967). William Lazonick, a Marxian-influenced disciple of Chandler, has recently put forward a more subtle and sophisticated version of this thesis. See his *Business Organization and the Myth of the Market Economy* (New York: Cambridge University Press, 1991).
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20. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), 41, emph. original.
21. In *The Visible Hand* to a greater extent than in *Scale and Scope.*
22. In fact, this distinction greatly—and sometimes dangerously—oversimplifies the world. Markets and hierarchies are in fact complex institutions that come in many, often overlapping, varieties. But the distinction will do for present purposes.
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34. Anonymous, "What Makes Yoshio Invent," *The Economist*, January 12, 1991: 61.
35. Ken-ichi Imai, Ikujiro Nonaka, and Hirotaka Takeuchi, "Managing the New Product Development Process: How Japanese Companies Learn and Unlearn," in Kim B. Clark, Robert H. Hayes, and Christopher Lorenz, eds., *The Uneasy Alliance: Managing the Productivity-Technology Dilemma* (Boston: Harvard Business School Press, 1985).
36. See especially Nelson, "U. S. Technological Leadership."
37. As Edith Penrose argued many years ago, a prime motive for the growth and diversification of firms is their possession of "excess capacity," especially excess technical and managerial capacity, which can be put to use profitably in related areas. See Penrose, *The Theory of the Growth of the Firm* (Oxford: Basil Blackwell, 1959).
38. C. K. Prahalad and Gary Hamel, "The Core Competence of the Corporation," *Harvard Business Review* (May-June 1990): 79–91.
39. Williamson, *Economic Institutions.*
40. For empirical evidence of this effect, see Donald J. Boudreaux and William F. Shugart, II, "The Effects of Monetary Instability on the Extent of Vertical Integration," *Atlantic Economic Journal* 17, No. 3 (June 1989): 1–10.
41. This is not, of course, a view peculiar to Chandler. It is widely held in various forms. Lazonick (*Business Enterprise*) presents an unabashed version that builds on Chandler's concerns. In fact, this view was also well known at the time Berle and Means wrote, having been popularized by Thorstein Veblen, *The Engineers and the Price System* (New York: Viking, 1921).

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Richard Sylla

THE PROGRESSIVE ERA AND THE POLITICAL ECONOMY OF BIG GOVERNMENT*

In the United States, big government was a child of the Progressive Era. Much recent work in American history, especially that of the "organizational" school, shows that big business played an active, perhaps dominant, role in the Progressive Era push for big government. This work undercuts an older, liberal interpretation emphasizing conflict between business and government. But why big business pushed for big government is still unclear. This paper advances the hypothesis that the push did

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Richard Sylla is Henry Kaufman Professor of the History of Financial Institutions and Markets and Professor of Economics at the Stern School of Business, New York University, 44 West 4th Street, New York, NY 10012, telephone (212) 998-0869, telefax (212) 998-4218.

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result from a conflict between business and government, namely, a conflict between big business and state government in the late nineteenth century. As the power and influence of big business grew, it saw big government at the federal level as the solution to many of its problems resulting from the conflict with state government.

All of the major traditions of American historical scholarship agree that the origins of big government as we know it are to be found in the Progressive Era. Spanning roughly the years from the 1890s to the direct involvement of the United States in World War I, the Progressive Era witnessed both a great expansion of the federal government's role in American economic life and the emergence of an ideology that supported and justified such a role. The Progressive Era was thus "A Bridge to Modern Times."[1]

Beyond this basic scholarly agreement there is much confusion. Historians are, naturally, divided by political perspective on the issue of whether the regulatory state born of Progressive reforms has been a positive or negative force. One might think, however, that there would be more agreement among professional historians on the less intrinsically political question of how—and perhaps even why—big government emerged in the Progressive Era. Not only is such agreement lacking, but in my reading of the literature I fail to find any clear answers at all.

So I am prompted to provide my own explanation of the origins of Progressive Era big government.[2] The explanation I advance is only a hypothesis, and a tentative one at that. More work will have to be done before the hypothesis can be judged. In developing my hypothesis, it will help to begin with a survey of historians' alternative views of the Progressive Era.

The Liberal Interpretation

At the start of what became an influential survey of trends in American historiography, Louis Galambos in 1970 announced that "with the demise of progressive history, scholars interested in modern America are left without an effective historical synthesis."[3] Galambos went on to argue that a new "organizational synthesis" was emerging, which he described thirteen years later in a related, less tentative essay as "a new interpretational framework, a context that featured large-scale organizations as the centerpiece of recent U.S. history":

> Reconstructed along these lines, our history no longer stressed liberal-conservative political struggles leading to pulses of progressive reform;

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> instead, the primary processes of change involved organization building, both public and private, and the creation of new and elaborate networks of formal, hierarchical structures of authority that gradually came to dominate our economy, polity, and culture. America's rendezvous was not with the liberal's good society. It was with bureaucracy.[4]

The connection of the organizational synthesis with big government is obvious, but it also encompasses big business, big labor, and in general large organizations of every variety. As Galambos emphasized, the new synthesis emerged in reaction to the long-dominant liberal-progressive view of U.S. history. This interpretation had given pride of place to the ever-present conflict between the capitalists and the common people, between property and democracy. The liberal interpretation saw the rise of big government in the Progressive Era as a triumph of the common people and democracy over the forces of property and "Big Business," which had become dominant during the "Gilded Age" of the late nineteenth century. Progressive reforms embodied in and implemented by the federal government protected ordinary citizens from the rapacious and monopolistic tendencies of laissez-faire business, especially big business. The antitrust and regulatory movements as well as the institution of the income tax, the Federal Reserve, and the Federal Trade Commission were all seen as extending the interests of freedom and liberty over the interests of property. This was the view of such eminent liberal historians as Turner, Beard, and Parrington, who lived through the Progressive Era and placed it squarely in the tradition of conflict they saw throughout American, if not all, history. It became the leading tradition of historical writing during the first half of this century.

The Consensus Interpretation

During the 1950s and 1960s the emphasis on Progressive Era conflict gave way to a perception of consensus among many American historians.[5] Ideology and conflict were out as the centerpieces of American history. America was unique. It never had the class conflicts and ideological warfare that plagued, for example, Europe. The motto "E Pluribus Unum," had it not previously been appropriated, could well be taken as that of the consensus school of American historiography. This school at first did not single out the Progressive Era as especially worthy of the attention accorded it by, for example, the liberal historians. It can be argued, however, that many of the contemporary historians who emphasize the organizational synthesis (see below) are latter-day members of the consensus school, and they do indeed attach great significance to the Progressive Era.

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Even an economic historian such as Robert Higgs, who in *Crisis and Leviathan* gives ideology and ideological change much more attention than is common among either the consensus and organizational-synthesis historians or the special tribe of economist historians to which he belongs, can be viewed in a somewhat peculiar sense as a consensus historian. For in Higgs's view, although Americans have had different ideologies at different times, and hence have experienced ideological change such as occurred in the Progressive Era, at most times in their history they have had but one dominant ideology.[6]

The Revisionist Interpretation

Whereas liberal historians interpret Progressive Era reforms as instances of the common people fashioning big government to protect themselves from the big business monopolies that arrived earlier, revisionist historians see them as the largely successful attempt, perhaps of business in general but certainly of big business in particular, to protect itself from the "excessive" (in business's view) economic competition of the Gilded Age. The 1960s work of Gabriel Kolko in its clearly drawn lines is the epitome of this revisionist brand of history.[7] The federal economic regulation that came in during the Progressive Era, according to Kolko, was chiefly sponsored by and designed to meet the private economic ends—healthy profits in an orderly, non-competitive economy—of business. Rather than representing a victory of the public interest over big business, federal regulation was captured by and did the bidding of the very big business interests it was supposedly designed to control. Other revisionist historians amplified Kolko's message regarding the Progressive Era. James Weinstein saw big business organizing both itself and sympathetic reform groups in the Progressive Era in order to promote, for example, the establishment of the Federal Trade Commission and of workmen's compensation laws at the state level, and to engage in efforts to undercut socialism—not for the good of the republic but because all of these activities tended to further its private interests.[8] Similarly, James Livingston analyzed the predominant role of big business leaders in establishing another of the Progressive Era's supposed institutional embodiments of the liberal spirit, the Federal Reserve System.[9] Even the welfare state, according to Edward Berkowitz and Kim McQuaid, had its origins under big business auspices during the Progressive Era.[10] It now seems that the steady—and prevailing—hand of big business was behind almost every Progressive reform.

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The Organizational Synthesis and Corporate-Liberal History

Much of the appeal of the organizational-synthesis or bureaucratic school of modern American history that has succeeded the liberal interpretation derives, in my opinion, from two of its characteristics. One is that it covers a broad range of scholarly interests including, for example, political, economic, business, social, technological, and intellectual history. This most definitely is a great advantage in an age of specialized scholarship. The second is that the organizational synthesis can accommodate historians of virtually every ideological persuasion. It is therefore a progeny of consensus even though the consensus school, initially at least, deemphasized ideology as a factor in American history. By enveloping all ideologies rather than neglecting them, the organizational synthesis may be viewed as deemphasizing the importance of ideology as effectively as the consensus interpretation did.

The broad range of the organizational synthesis can be seen in Louis Galambos's 1983 survey article identifying and discussing three of its central themes. One of these themes is technology and the corporation, developed and celebrated so prominently in Alfred Chandler's influential book, *The Visible Hand*.[11] A second theme—the most important of the three for my present purposes because it deals with the origins of big government—is the political economy of corporate liberalism. The third theme is the emergence of modern, that is, organized professions. The relationship of the three themes to one another in an organizational synthesis could be explored at some length, and indeed Galambos does so. The bureaucratic school's view might be summarized in a short and bold generalization: Big business was instrumental in establishing big government to solve some of its and America's problems, and big business and big government worked together to promote the rise of modern professions because they both needed professional experts to carry out what they saw as their functions in the new, more organized society.[12]

The organizational synthesis is of course much more complex than such a simple generalization can indicate. Probably few historians would accept it without qualification. But other arrangements of the three themes would be still less acceptable if not farcical. Did big government for some reason or reasons establish big business? Did organized professional groups establish big business and big government in order to create outlets in which they could practice their newly developed expertises?

The ideological accommodativeness of the organizational synthesis is best seen in the notion of corporate liberalism, the idea that corporate leaders were behind the reforms that led to big government during and after the Progressive Era. Galambos identifies a moderate and a radical

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wing of the corporate liberal school of organizational-synthetic historiography.[13] The radical wing, which would include the revisionist historians mentioned earlier, saw big business around 1900 as powerful but also threatened by the ruthless economic competition as well as the social and political disorders that manifested themselves during the Gilded Age. Big government represented for Progressive corporate leaders a means of staving off these threats to big business. The moderate wing is both more optimistic and more pluralist. Big business was, following Chandler's analysis, a positive, innovative force for economic progress. As it grew in strength, big business naturally promoted the same professional, managerial, and administrative types of organization in government that had proven successful in large corporations. Before the Progressive Era, American government had been the province chiefly of party politicians, amateurs lacking an understanding of the economic advantages provided by big business and consequently susceptible to unintelligent if politically popular attacks on it. The power of such politicians had to be weakened; government had to be reformed. In these endeavors, corporate leaders were joined by older, non-corporate liberals and experts from the professions; hence the pluralism. The results were not always what any of these supporters of big government intended, as both radical and economist historians among others have since pointed out, but the corporate liberal order of efficiency and stability was at least preserved and probably strengthened as a result of the innovation of big government.

Martin Sklar, who coined the term "corporate liberalism" more than three decades ago, gives the concept its most comprehensive analysis to date in his recent book, *The Corporate Reconstruction of American Capitalism, 1890–1916*. Sklar's study is the subject of a review essay in this issue of CRITICAL REVIEW. Given that nearby discussion, it suffices to say here that I place Sklar's work in the moderate wing of the corporate liberal school. He sees the Progressive reforms as emerging from compromises reached by a great many economic, social, and political groups. The resulting consensus "assigned to the corporation . . . the primary task of managing the market, and to the state the secondary task of regulating the corporations and the lesser entities in the private sector."[14] There are radical elements in Sklar's neo-Marxist interpretation, but the main emphasis is on middle-ground consensus.

Robert Higgs's *Crisis and Leviathan* represents, I think, a new wing of the corporate-liberal section of organizational-synthesis history. This is the libertarian wing. It has much in common with the radical and moderate wings as regards the interpretation of the emergence of big government in the Progressive Era. But it differs with the radical and moderate wings in the interpretation of later results. The radical corporate liberals see big

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business as dominating our economy and society with the aid of their creation, big government. The moderates see a variety of large-scale organizations, of which big business and big government are but two constituent parts, as the characteristic forces in our pluralistic society, but they see no one type of large-scale organization dominating society or controlling its destiny. Higgs, the libertarian corporate-liberal analyst, sees big government, a child of the Progressive Era that matured through later crises, as becoming the dominant force in our society. From big government the corporations, other large-scale organizations, smaller groups, and even individuals seek favors and short-run advantages, seldom stopping to realize that individual liberty has been and is being sacrificed in the process. Higgs, following Charlotte Twight, rather poignantly terms the result "participatory fascism," a sobering phrase reflecting a deep pessimism about modern America.[15]

The foregoing survey of trends in historical analysis of the rise of big government in the Progressive Era is encouraging in one sense. Regardless of whether "organizational," corporate-liberal historians rely on radical, moderate, or libertarian analysis, they all agree that big business was highly influential in the movement for Progressive reforms. Agreement on this point, it seems to me, explains why the organizational school has (among professional historians) routed the older liberal-progressive school with its emphasis on a fundamental conflict between business and government, between property and democracy.

In another sense, however, the victory of the corporate-liberal school is less encouraging. There is no agreement on why big business organized in the many ways now documented in order to bring about the reforms that resulted in big government. The radical revisionists see the business-government alliance as an attempt to suppress competition in order to promote monopoly power and profits. This economic goal required big business to work for reform in order to gain social legitimacy and to further its political power. In the radical view, big business was all too successful in achieving these pernicious goals.

Moderate corporate liberals, attuned to the complexities of history in their analyses, have exhibited more caution in their explanatory generalizations. The studies written by these historians do not lend themselves to bold generalizations. For the most part they take the form of unsynthesized monographs. The corporate liberal analysts are foxes who await their hedgehog. (Although Martin Sklar's *The Corporate Reconstruction of American Capitalism* has some characteristics of the latter animal, it deals mainly with but one aspect of the Progressive reforms, the antitrust movement.) An early attempt at synthesis, preceding some of the important organizational-history monographs, was Robert Wiebe's 1967 study of

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The Search for Order, 1877–1920.[16] Rhetorically elegant and provocative in its argument, which anticipated and stimulated the idea of an organizational synthesis, Wiebe's book nonetheless lacked a closely reasoned explanation of the role of business in fashioning big government. "After 1900," Wiebe says, "the dynamics of American politics increasingly concentrated in administration, where businessmen sought freedom from antimonopoly rules" (does this mean that they sought monopoly?); these businessmen had a "passion for stability."[17] But "the heart of progressivism was the ambition of the new middle class to fulfill its destiny through bureaucratic means."[18] In Wiebe's early attempt to form an organizational synthesis it was not yet clear, as it later became, that big business was behind many of the Progressive reforms at the federal level, and so it could hardly be clear *why* it was behind them. In 1983, Galambos could still lament that "we know all too little about the general sources of these broad [organizational] changes in our society."[19] He could only suggest that the changes were tied up with a desire for both "a greater measure of security" and for "ongoing technical and organizational innovations essential to our economic success over the long run."[20] Why did these desires flower in the Progressive Era? Galambos suggests that it happened because the frontier had come to an end and population growth had slowed, but neither of these factors seems to be a new or enlightening solution to the problem of explaining the origins of big government.

With this as background it is not surprising that a libertarian corporate liberal analyst such as Higgs also has difficulty in accounting for the emergence of big government in the Progressive Era. No "crisis," it seems, prompted this protean expansion of federal powers and responsibilities, so the Progressive Era does not fit Higgs's general scheme for explaining the later growth of government. For the Progressive Era, he proposes instead "a profound transformation of the ideological environment" that may have been rooted in the rise of experts, intellectuals, and socialists.[21] But why this "ideological turnabout" occurred is not explained, and the more general problem of whether ideological change is endogenous or exogenous is discussed but not solved by Higgs. Since the ideological change, which affected businessmen as well as experts and intellectuals, is essential to getting Leviathan launched, a principal task of those who follow in Higgs's footsteps is to explain that change. The "experts *et al.*" explanation does not seem to me to open a promising direction. I would regard their appearance as more a result than a cause of the fundamental changes taking place in American society at the time of the Progressive Era, which were in political economy rather than in ideology.

To my mind, the key political-economic finding of the organizational historians is the phenomenon of corporate liberalism, i.e., the increasingly

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documented fact that big business played a crucial role—perhaps *the* crucial role—in working for and achieving big government. This finding is robust in the sense that it is arrived at by historians whose personal ideological predispositions range across the spectrum from the radical left to libertarianism. These differing ideological predispositions lead to varying interpretations of the motives of corporate liberal reformers of the Progressive Era as well as to differing evaluations of the short- and long-term goodness or badness of the reformed system the corporate liberals wrought. But it is agreed that big business was behind big government. The finding is also robust in another sense: The corporate liberal system in which big business and big government coexist symbiotically has persisted from the Progressive Era to the present day.

Agreement on the importance of corporate liberalism serves to underscore the fundamental significance for modern American history of the insights of Alfred Chandler. Chandler demonstrated that with the exception of a few great railroads, big business did not exist in the American economy much before 1880. But by the turn of the century it was, so to speak, a going concern, a force to be reckoned with, and—this is a point little addressed by Chandler—it was a force at work in reshaping nonbusiness institutions such as government.

This is not the place to explore Chandler's powerful insights in their complex detail.[22] What interests me here is why the new and powerful forces of big business—big transportation, big manufacturing, and big finance—were not content merely to pursue their obvious advantages in the economy. Why did they go beyond the Chandlerian pursuit of the economic advantages conferred by technologies of mass production and distribution to become actively involved in the reshaping of society and the reforming of the national government in their own image?

The Governmental Problem of the Late Nineteenth Century

A curious blind spot seems to have afflicted the vision of many intellectual leaders of the Progressive Era. They seem, moreover, to have transmitted it to later generations of American historians. The blind spot is state government. So effectively did the corporate liberals build big government at the federal level that they and those who later wrote about them could blithely assume that because state government no longer counted for much, it therefore never had counted for much. (Only now does the affliction show signs of going away, notably in recent books such as those of William Brock and Peter Wallenstein.)[23]

Progressive intellectuals neglected state government because they had contempt for it. It was what, at least in their view of its late-nineteenth-

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century manifestations, government should not be. That is why they advocated and worked for Progressive reforms to make the federal government something different. Their big business accomplices in these endeavors were more highly motivated. They could not afford the luxury of ignoring state government, even though they shared the intellectuals' contempt for it. Big business in its early years had to deal with state government constantly, generally to its displeasure. State government, though increasing its administrative capacities (as William Brock demonstrates), was still the traditional American government of mass parties, legislative politics, and courts. How much more efficient and less costly it must have seemed to the businessmen subjected to several state jurisdictions to create an administrative state at the federal level, and to have that state absorb some state activities and override others. That is what they tried to bring about—successfully. That at any rate is my reading of the evidence, and it points toward one avenue of inquiry that might lead to a new explanation of the origins of big government.

The number of states itself makes the study of state government complex, confusing, and forbidding. Big government at the national level, although it has also become complex and difficult, seems more interesting and relevant, if only because all of us are affected by it, whereas at most only about one in eight of us is affected directly by any one state government.

A century ago such was not the case. In the U.S. federal system then, state (and local) governments loomed large and the federal government in Washington was, relatively speaking, a much smaller component of all government than it is today. In a book first published in 1889, the young Woodrow Wilson wrote:

> The states properly come first in a description of the government of this country, not only because it was in conformity with state models and precedents that the federal government was constructed, but also and more particularly because the great bulk of the business of government still rests with the state authorities.
>
> All the civil and religious rights of our citizens depend on state legislation; the education of the people is in the care of the states; with them rests the regulation of suffrage; they prescribe the rules of marriage . . . ; they determine the power of masters over servants and the whole law of principal and agent, which is so vital a matter in all business transactions; they regulate partnership, debt and credit, and insurance; they constitute all corporations, both private and municipal, except such as specially fulfil the financial or other specific functions of the federal government; they control possession, distribution, and use of property, the exercise of trades, and all contract relations; and they formulate and administer all criminal law, except only that which concerns crimes committed against the United States, on the high

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> seas, or against the law of nations. Space would fail in which to enumerate the particular items of this vast range of power; to detail its parts would be to catalogue all social and business relationships, to set forth all foundations of law and order.[24]

Wilson went on to suggest ominously that a conflict was arising between state law and national economic development:

> The plan of leaving to the states the regulation of all that portion of the law which most nearly touches our daily interests, and which in effect determines the whole structure of our society, the whole organic action of industry and business, has some serious disadvantages: disadvantages which make themselves more and more emphatically felt as modern tendencies of social and political development more and more prevail over the old conservative forces. . . . State divisions, it turns out, are not natural economic divisions; they practically constitute no barriers at all to any distinctly marked industrial regions. Variety and conflict of laws, consequently, have brought not a little friction and confusion into our social and business arrangements.[25]

What sort of frictions were arising from state laws? American writers had paid little attention to this subject, as the British liberal, James Bryce, discovered during the 1880s when searching for information on state legislation while preparing his classic, *The American Commonwealth*.[26] Bryce wrote to Herbert Baxter Adams at Johns Hopkins with a request for help. At Adams's behest, Albert Shaw, a Hopkins graduate student, prepared an essay on the subject and sent it to Bryce, who helped him to have the essay published in the British *Contemporary Review* in 1887. Its title, rather mild in tone, is "The American State and the American Man."[27]

Early in his essay Shaw stated that "the average American has an unequalled capacity for the entertainment of legal fictions and kindred delusions. He lives in one world of theory and in another world of practice, and he deludes himself into supposing that they correspond with one another in the main, whereas it is generally true that they do not."[28] The theory about which Shaw talked was *laissez faire*. The practice was government intervention, economic and other. Albert Shaw had discovered "the governmental habit" nine decades before it was rediscovered by Jonathan Hughes.[29]

Shaw went on to describe the thousands of laws passed by the more than thirty state legislatures that had met in 1885:

> The one common and striking characteristic of this huge collection of new statutes is its utter disregard for the *laissez-faire* principle. . . . They seem to have left nothing for future legislatures to regulate. And yet, if we refer back to the legislative "out-put" of 1883, we find the same striking characteristics,

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while that of 1887 promises to be even more varied and pronounced in its departures from orthodoxy.[30]

It is not entirely clear from his essay if Shaw was a believer in *laissez faire*. But he certainly was disgusted by a lot of state legislation. Here is a sample of his findings:

Shaw on state regulation of railroads and grain warehouses: "The disposition everywhere is to go just as far in restricting the transportation companies as can be gone without serious injury to everybody concerned."[31]

Shaw on debtor-creditor relationships:

> The exemption laws of Western States and Territories are so framed as to favour the farmers. In Minnesota the farm buildings and eighty acres of land constitute a homestead exemption, which is safe from all attachment and execution processes. In addition, the exemption law reserves an amount of household belongings, farm utensils, livestock, and the like, which is worth from fifteen hundred to two thousand dollars. . . . In all the Western agricultural States and Territories such dishonorable exemption laws exist, enabling the farmer to evade the payment of debts. . . . They injure Western credit, and affect unfavorably the rate of interest. Whereupon the farmers again interpose, fix a lawful interest rate, and punish usury with forfeiture.[32]

Shaw on Minnesota dairy farming in relation to big business:

> The dairy farmers have now sought and secured the protection and patronage of the State. A new bureau is created, manned by a State Dairy Commissioner and his subordinate officers. The dairy laws take the guise of regulations for the protection of the public health against impure and adulterated milk and butter; but their real object is to protect the butter makers and great "creamery" establishments from the competition of the artificial product known as Butterine. This article is manufactured on a vast scale in Chicago, its principal ingredients being hog's lard, cotton-seed oil, and genuine butter. . . . It is estimated that four or five million pounds of it were sold as butter in Minnesota in 1884. The new Law of 1885 banishes the artificial product from the state.[33]

Shaw on the professions:

> A State Board of Medical Examiners regulates the practice of medicine, examining and admitting all new practitioners. A new law creates a State Board of Pharmacy for the examination of druggists and compounding clerks. . . . Another new law regulates the practice of dentistry, and creates an additional State Board. These laws were enacted at the instance of the physicians, druggists, and dentists respectively, who doubtless had their own interest no less than the general welfare in view. Unfortunately for the public, the laws do not apply retroactively.[34]

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Shaw on labor law:

> The simple truth is that there is no legislation which the working men in the United States may not secure, if they really unite in desiring it. In Wisconsin, Iowa, Kansas, Montana, and Wyoming, also in the two southern states of Georgia and Mississippi, statutes render railway companies liable for injuries received by employees, and no contract restricting such liability is binding. In Rhode Island such a law is made applicable to steamboats as well as railroads. . . . It is worthy of note, certainly, that these American laws which restrict freedom of contract in order to better protect labour against capital, have their origin in those very western commonwealths which have been thought so jealous of state interference and so firmly wedded to the doctrine of free contract.[35]

Shaw has more to say in a similar vein on the states and agriculture, on the states and the lumber, cattle, insurance, banking, and oil businesses, on the states and education, on state eleemosynary institutions, and on state legislation of morality. As I have already quoted him extensively (in part because of the apparent obscurity of the source), I shall spare further details. His summation, however, is irresistible:

> While it must be concluded that very many of these undertakings, restrictions, and interferences on the part of the Government are advantageous and commendable, no one who accepts the statement of facts will deny the deplorable tendency to reckless, selfish, and strained employments of the state prerogative. Shall the *laissez-faire* theory of government, therefore, be yet more vigorously expounded as an antidote? I can only reply that the theory is already accepted by these legislators. . . . They are unable to establish any connection between their political philosophy and their practical work in building states and shaping legislation.[36]

James Bryce, in his chapter on "Laissez Faire" in *The American Commonwealth*, briefly cited Albert Shaw's essay and adopted Shaw's conclusion: Although most Englishmen and most Americans believed that "both the Federal government and the State governments interfered little," Bryce stated flatly on the basis of the evidence from the states that "the belief is groundless."[37] He repeated most of Shaw's examples of interference by state governments and added, in the third edition (1895), a long list he himself had gathered. Among the most amusing: "In Kansas the gift of bounties for the heads of coyotes (prairie-wolves) led to the rearing of these animals on a large scale in a new description of stock."[38] Several other examples have a more serious bearing on the problems big business encountered in its contacts with state government. For example, "Pennsylvania forbids the consolidation of telegraph companies," and "five new states by their constitutions, and many others by statutes, endeavor to

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destroy the recently developed trade combinations of capitalists called 'trusts,' treating them as conspiracies, and threatening severe penalties against those concerned in them."[39] Cautiously, Bryce concluded that it was "too soon" to evaluate the success of the widespread interventionist experiments of American state legislators, whom he referred to as "these unconscious philosophers."[40]

Leaders of big business, closer to the scene of the action and more practically interested in its outcome, made a more definite evaluation than did the British scholar and man of affairs. In his study of late-nineteenth-century American railroad leaders, based on a detailed investigation of what they thought, said, and wrote, Thomas Cochran found that "railroad executives had a deep distrust of legislatures and government officials. With virtual unanimity they doubted the wisdom, honesty, or efficiency of politicians: . . . 'they are utterly unreliable. . . .' "[41] Of the state courts that enforced state laws, C. E. Perkins, president of the Chicago, Burlington & Quincy Railroad, wrote, "The only point with the people is that in the state courts the railroads cannot get justice, and therefore they want to put us there."[42] Their problems with state legislatures and courts led the railroad executives to see the advantages of more administratively oriented approaches:

> The presidents came to see that if state regulatory laws could not be avoided, then railroad commissioners elected or appointed to administer them were not an unmixed evil. Ledyard [president of the Michigan Central] wrote in 1883: "Where there are Commissioners to stand between the railroads and the public much dissatisfaction can be avoided, and many things made plain." Similarly, if legislation was to be framed, managers preferred that the situation first be investigated by a commission.[43]

The logic of the discovery that regulatory commissions might well be more reasonable than state legislatures and courts had a further ramification that was not lost upon railroad leaders such as C. E. Perkins: "As state regulatory laws multiplied in the seventies, Perkins came to think that perhaps a national Board of Commissioners to study railroad affairs . . . would be better than leaving the railroad question 'wholly to state politicians.' "[44] With their experience in the states, many leaders of the nation's first big businesses were not opposed to the initial step toward big government that the federal Interstate Commerce Commission represented in 1887. State governments had won a famous victory over the railroads in the 1877 *Munn* decision, in which the U.S. Supreme Court upheld the right of the states to regulate businesses said to be affected with a public interest, such as common carriers. The decision gave rise to widespread regulation of railroads by state government. Differences and inconsistencies among

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state regulations increased the willingness of railroad leaders to consider federal regulation.

But what of other state regulation of business? The commonly held and long-standing answer is that business, particularly big business, was unhampered by state government during and after its appearance in the late nineteenth century. The commerce clause of the U.S. Constitution had taken away the power of the states to regulate commerce between them, reserving it for Congress. Celebrated Supreme Court decisions under Chief Justices Marshall and Taney in the first half of the nineteenth century had struck down state laws embodying violations of the constitutional mandate and had upheld the immunity of private contracts from state interference. So business in general and big business in particular were regarded as having access, unencumbered by state interferences, to an expanding nationwide free trade area as the U.S. economy developed in the nineteenth century. Indeed, the *Munn* decision has been noted mainly as a departure from the general rule that states could not interfere with the basic rights of businesses (including corporations) to be let alone.

However popular this interpretation of pre-twentieth-century laissez faire and the states may have been, it no longer can be seriously entertained. As legal historians among others have shown, big business in the form of the manufacturing corporation had as much trouble with state legislatures and courts as did big business in the form of the railroad corporation. Although the states could not protect local in-state business interests from outside competition by means of tariffs, they could—and did—accomplish much the same end with occupational-licensing and inspection laws. I. M. Singer & Co., the manufacturers of sewing machines, decided in the 1870s to market its products by developing its own national distribution network in order more efficiently and expeditiously to provide instruction in the use of its machines as well as consumer credit and repairs. In response, according to legal historian Charles McCurdy, "state government, prodded by local merchants and manufacturers whose interests were threatened, not only stepped up enforcement of long-established licensing laws for peddlers but also enacted new revenue statutes to buttress the competitive position of local businessmen."[45] A Singer agent was convicted of violating such a law in Missouri, and on appeal the law was upheld by the state's highest court in 1874. Singer then appealed to the U.S. Supreme Court and, in 1876, won its case. But that was not the end of the matter. Virginia had a similar law but its Court of Appeals held that it was different enough from Missouri's to distinguish it from the precedent set in the case of *Welton v. Missouri*. Singer thus had to return to the U.S. Supreme Court, where its position again was sustained

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in 1880.[46] A victory for big business in one state hardly meant a victory in all states.

McCurdy also shows, in reference to another industry being transformed into big business, that in the 1880s a number of states—at the behest of local butchers and the national Butcher's Protective Association—passed inspection laws whose main intent was to prevent the big Chicago meatpackers, employing the new refrigerated railroad-car technology, from marketing their fresh meat products in those states. Again, after protracted litigation, the U.S. Supreme Court in 1890 sustained the Chicago meatpackers' position in overturning a discriminatory Minnesota inspection law. A direct and immediate result of the case was that Congress enacted meat inspection at the federal level.[47] A recent study by Gary Libecap amplifies McCurdy's findings and in addition indicates that the frustration of both butchers and cattle raisers over the competition of the giant meat packers played an important role in generating support for the Sherman Antitrust Act as well as for federal meat inspection. Libecap notes that twenty states considered, and four adopted, local meat inspection laws in 1889, but that the laws, as noted above, were dismissed by the Supreme Court in 1890. Twelve states also adopted antitrust legislation in 1889; here similar concerns over the Beef Trust—its alleged power to lower prices paid to cattle raisers—became instrumental in securing passage of the Sherman Act. These were early and clear messages to at least some of the rising big businesses that they needed to become more involved in shaping laws and regulations.[48]

Although big business won several important tests in the Supreme Court, these victories and those in other federal courts and in the states were expensive. The costs of litigating against discriminatory laws that made it onto the books were only part of the total bill for fashioning a national market long but erroneously regarded as having been freely available to Gilded Age entrepreneurs. There were also the costs of lobbying in order to attempt to prevent such bills from being enacted in the first place in state after state, year after year. Is it any wonder that big business, with ample but not unlimited resources, should have had an increasing interest in working at the federal level for less costly, more efficient administrative solutions to its problems with state government?

Big business interests could not, even with a considerable expenditure of resources, invariably or even usually count on a conservative, pro-business Supreme Court to protect it from state interferences. This flies in the face of another popular myth, based on the Fourteenth Amendment and the doctrine of freedom of contract as applied in a few noted cases to overturn state statutes. Considering at some length the late-nineteenth-century experience of state interventionist legislation in the high state and

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federal courts, William Brock concludes that "far too much prominence has been given to the few cases in which state statutes were invalidated, and far too little to the widening stream of judicial approval for more and more advances in the regulation of social and economic life."[49] Usually, interventionist state legislation was sustained by the high court.

Toward a New View of Progressivism

My argument here is that big government, which first appeared in the United States during the Progressive Era, was the result of a rather specific conflict that arose and grew in the last three decades of the nineteenth century. The precipitant of the conflict was the rise of big business. New methods of mass production and mass distribution, potentially if not actually national in scope and embodied in a new type of bureaucratic organization, the large corporation, developed in these decades to constitute a competitive threat to the old economy of local, state, and regional interests. These interests, with their methods of small-scale production and distribution, were often at a great disadvantage in the economic competition with large corporations. But there was available to them, much more than to the new economic forces, the institutions and procedures of another competitive system that, unlike big business, was both long established and of undoubted legitimacy. This was the competitive system of party politics as institutionalized in elected state legislatures and executive officers, as well as the state courts whose judges, if not always elected, were at least appointed by those who were. The old, competitive political system of state government proved quite resilient in standing up to the threat that big business competition posed to its political constituents.

If big business were not to be gravely hampered in realizing the economic rewards of its technological and managerial innovations, it would have to act as the spearhead of a movement to reform that political system. A reformed government attuned to the needs of corporate business would have to be national in scope and bureaucratic in procedures, like big business itself. It would absorb some of the economic regulatory functions of the state governments, and bypass others. Above all, it would serve to depoliticize the decisions of government that affected business by lodging them in bureaucratic agencies insulated from party politics.[50] This new federal government would be much bigger than the old federal government, but it would also be much more "progressive."

What are some implications of this argument for other areas of interest? Since its appearance a little over a century ago, big business has had to contend continually with the charge that it is uncompetitive or monopolistic. The argument here suggests on the contrary that, at least initially,

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large corporations were so competitive in production and distribution that the older, small-scale competitors could not compete with them in the economic arena and so had to turn to an arena where they *could* compete, the politics of state government. Small business and the legislators who represented its interests thus could use a rhetoric of competition and monopoly not to protect and preserve competition but rather to protect and preserve particular competitors, namely various small businesses.[51] Fortunately for political change, the methods of big business and its economic advantages did not—as Chandler has demonstrated—extend across the board to cover all industries and lines of business. That made it easier for big business to bring small businessmen and civic-minded leaders into the political coalitions that led to Progressive reforms and big government.

This line of reasoning should not, however, be extended beyond the period to which it is applied. Once big government was established, big business could use it to seek anti-competitive advantages in roughly the same fashion that small business had used state governments to obtain anti-competitive advantages during the late nineteenth century. Minnesota butchers used state government to keep out Chicago meat; more recently, Chrysler and other auto firms used the U.S. government to keep Japanese autos out of the United States. The level on which regulation has been carried out has changed, but government interference in the market has persisted.

Two related implications of my argument are, first, that Progressive reformers—not just big business leaders, but also politicians, intellectuals, and opinion leaders—should have taken a dim view of state government and party politics, and, second, that state governments in general should have been less than enthusiastic about, even hostile to, Progressive reform at the federal level. Both implications are confirmed in the historical literature.[52]

A middle ground between the continued conflict of big business with the protectionist policies of state governments and the innovation of big government as a solution to that conflict was the reform and harmonization of state laws. The National Civic Federation, a leading political organization of big business leaders in the Progressive Era, made a major effort to promote the uniformity of state laws on such matters as chartering and regulating corporations, workmen's compensation, the minimum wage, and public utility regulation.[53] But the states were large in number and reluctant to surrender their legislative prerogatives, so this would have been a costly solution. It was more efficient for big business to work for reform at the national level.

The National Civic Federation's fact- and opinion-finding surveys

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provide substantial support for the hypothesis that business's difficulties with state government were at least a major cause of its support for federal intervention. In a 1907 conference discussion of government interference with business, businessman Isaac Seligman put it this way: "There is . . . more to be feared from the ordinary tendencies of the various states than from the present National Administration or any future National Administration. . . . Let us remember that our business interests have become national interests and let us have confidence in the integrity, wisdom and equity of our Government."[54] Seligman's statement is the more remarkable for coming at the time of Theodore Roosevelt's trust-busting at the federal level.

The Federation's 1912 survey of the opinion of 16,000 Americans on "the trust problem" is peppered throughout with derogations of state interference with business, even though such responses were not specifically directed by the survey questions. The openings for these comments were provided by general questions such as, "Do you favor a national incorporation law?" "Do you favor a federal licensure law?" "Do you favor an Interstate Trade Commission . . .?" and ". . . what caused or causes the present disturbed business conditions?"[55] Here are some of the responses (by occupation, page), selected here because they show the connection of business problems at the state level with calls for federal regulatory action:

> What we need more than anything else is a National Incorporation Law to eliminate petty annoyances and legal requirements of Interstate business. . . . (Manufacturer, 15)
>
> I favor a national incorporation law, if it will put a stop to the various States trying to hold us up when we do business with the residents in their particular state. (Manufacturer, 31)
>
> I favor neither national incorporation nor Federal license for corporations engaged in interstate commerce, unless the oppressive and unfair legislation by states cannot be otherwise avoided. (Manufacturer, 49)
>
> I favor by all means a national incorporation law, and a federal license law, if there is any way under a Federal incorporation law to prevent unjust license fees and taxes among the several states. (Manufacturer, 69)
>
> The ordinary business of the country is now hampered by so many fool and various laws in the different States, it is very difficult to always know whether you are within the law or not, if you are doing a large interstate business. (Manufacturer, 104)
>
> "Enact a Federal incorporation law. . . . Every such Federal corporation should be given rights, powers and privileges in every State on the scale of

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> those now enjoyed by national banks, free from the harassing, nagging, conflicting, and oppressive statutory provisions and burdensome taxes that prevail in nearly all of the States against foreign corporations doing business therein." (Banker, quoting newspaper article, 180)
>
> The people, including a big majority of merchants, want laws passed by the Federal Government, not States, regulating business of all kinds, so that the business man, firm or corporation would have to run the same in an honorable manner. (Merchant, 297)
>
> We favor a national incorporation act that will regulate large corporations to a reasonable extent and permit them to do business in all States of the Union. Corporations now doing an extensive business in this country are entirely "at sea" on many legal points in the various States, as well as not being advised as to their rights under the Sherman Law. (Manufacturing company, 348)
>
> I prefer national incorporation under laws giving the Federal or National Government absolute power to regulate. State legislatures are more susceptible of domination by the "interests" than Congress; and the Congress is made up of higher class men than legislatures, so that the people get better service from Congress than from their own legislatures. (Attorney, 454)
>
> Without Federal incorporation and regulation the confusion arising out of the inefficiency and conflict of the laws of the several states relating to interstate commerce, as well as to many other things (quarantine among them), will still be with us to the great detriment of the people. (Oil and gas producer, 497)

The 1912 National Civic Federation survey is less than ideal for my purposes. It related only to one of many regulatory issues, the trust problem. It came after the worst of state interventionist activities (from business's point of view) had passed. The transfer of governmental regulatory power to the federal government was well under way. Moreover, it came at a time when a contention of some reformers was that federal regulation was needed because the states were being too generous to corporations. Nonetheless, many business leaders still were bothered by state legislation and regulation, and not a few of them saw a way out of the problems by invoking greater federal involvement in the economy.

In his *Building a New American State*, Stephen Skowronek holds that the new centralized, bureaucratic, and administrative state (i.e., the federal government) that emerged between 1877 and 1920 was "a response to industrialism," which rendered inadequate the old state dominated by parties and courts.[56] "Government authority," Skowronek says, "had to be concentrated at the national level and governmental offices insulated from the

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people at large. The institutional forms and procedures through which American government had been working for decades would not simply give way once their limitations became apparent."[57] These are informed generalizations, but I have two quibbles with Skowronek's formulation of them. He gives what I regard as insufficient attention to big business as a prime cause of the new state; "industrialism," after all, had been present since the early nineteenth century but the federal government remained limited in its functions until the visible hand of large corporations extended itself across state borders late in the century. Further, Skowronek slights the role of big business's main opponents, the state governments. The old American state was not only or even mainly a state of courts and parties—it was a state made up of many states, each with its own courts and parties. The centralizing trends in American government that have unfolded since the Progressive Era have been so strong as to cause later writers to forget that state governments held the reins in the previous era of decentralized government.

Ideology and Big Government

It is easy to underrate the role of ideology in political economy, but it is also easy to overrate it. Robert Higgs is wise to point to the danger that "ideology will become a *deus ex machina* drawn into the analysis of change in the political economy when one cannot identify other plausible or convincing causes."[58] But Higgs himself may have fallen victim to that danger.[59] To argue that a dominant ideology of limited government gave way in just a few years around 1900 to a dominant ideology of active intervention in economic life by big government is, in my opinion, to oversimplify and misread the dynamics of the historical change involved. However much they may have expressed a rhetoric of *laissez faire*, the state legislators of the late nineteenth century continually acted as interventionists in their approach to economic affairs. Their activism on behalf of local vested interests was the main problem with which big business, the new kid on the block, had to contend. Big business, it seems to me, worked for big government in large measure in order to reduce political intervention in economic affairs. It had to create and give expression to a new ideology of corporate liberalism to reach its goal. Like Pandora, big business did not appreciate all the implications of its actions at first. But that should come as no surprise.

Still another reason to doubt that an ideological revolution was responsible for the Progressive Era emerges when one reflects on the parallels between it and earlier consolidations of governmental activity over economic affairs, including that which preceded Progressivism by a century.

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In his classic of economic history, *Mercantilism*, Eli Heckscher argued with great force that the highly developed economy of the modern world "had the overcoming of medieval particularism as its first postulate."[60] The modern economic system would have been impossible, Heckscher said, if goods and travellers were held up by custom barriers every few miles on the best routes, if there were different currencies every few miles, if industry were confined monopolistically to local craftsmen, if all agriculture were subordinated to the goals of the neighboring town, and if every town governed as it thought best. These were the characteristics of late medieval economic life. They were overcome, Heckscher demonstrated, by the establishment of the strong nation states whose economic policy was mercantilism.

Similarly, in the United States of the 1780s, debtors were in revolt, states were governing as they thought best, including printing their own currencies and putting tariffs on the products of other states, and a weak national government was virtually bankrupt. The Federalists responded by creating a strong central government and taking away a number of the old powers of the states, including the power to print money and impose interstate tariffs.

Had the likes of Alexander Hamilton and James Madison been present a little over a century later, they might well have viewed the corporate liberals as continuing their work when they fashioned the beginnings of what today we call big government. Given an unbroken tradition of governmental interference in the economy, a shift in the level and method of its application need not have required entirely new ways of thought.

* * *

The rise of big government—the regulatory state—during the Progressive Era is clearly a complex historical issue open to many interpretations. The works of historians, political scientists, economists, and others mentioned in this essay confirm the point—although I have necessarily had to limit my account of the literature. Given that limitation, and the wealth of primary evidence to be considered, the hypothesis presented here is tentative, preliminary, and subject to revision.

This needs to be said in order to contend with the anticipated response that there is nothing new or original about it. Recognizing that this is an essay reacting to the work of others rather than original research, I in good measure agree. That the big businesses whose appearance was the key economic change of the late nineteenth century were frustrated by state laws and regulations as their markets crossed state and even national borders, and that they searched for ways to ease these frustrations are hardly new insights. Business leaders at the time said as much. That federal

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"solutions," i.e., federal laws, regulations, agencies, and courts, were a way—potentially at least—of tidying up the regulatory situation and overcoming the worst features of the morass of conflicting state laws and regulations is not new either. Woodrow Wilson said as much more than a century ago. My argument is simply that these points are sufficient in themselves to account both for the phenomenon of corporate liberalism and for its seemingly omnipresent role in the rise of big government.

NOTES

1. "A Bridge to Modern Times" is the subtitle of Robert Higgs's ch. 6, "The Progressive Era," in *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987). Following Higgs, I define big government for purposes of this paper as the modern U.S. federal government with its wide scope of "effective authority over economic decision-making," in which "governmental officials rather than private citizens effectively decide how resources will be allocated, employed, and enjoyed." See *Crisis and Leviathan*, 28.
2. For several years I have been engaged in a study of the quantitative history of U.S. state and local public finance. That work, still in progress, indicates that state and local governments expanded not only their levels of revenue and spending but also the domain of their functions toward the end of the nineteenth century. This essay is a result of my efforts to understand the causes and consequences of the expanding domain of governmental functions at the state and local levels.
3. Louis Galambos, "The Emerging Organizational Synthesis in Modern American History," *Business History Review* 44 (1970): 279.
4. Id., "Technology, Political Economy, and Professionalization: Central Themes of the Organizational Synthesis," *Business History Review* 57 (1983): 471.
5. A good study of the great liberal historians which also treats the consensus school that came in their wake is Richard Hofstadter's *The Progressive Historians—Turner, Beard, Parrington* (New York: Alfred A. Knopf, 1968). See especially ch. 12, "Conflict and Consensus in American History," and the Bibliographical Essay for analysis of and a guide to the literature of the two traditions.
6. See Higgs, *Crisis and Leviathan*, chs. 3, 5, and 6.
7. See especially Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (New York: The Free Press, 1968) and *Railroads and Regulation* (Princeton: Princeton University Press, 1965). Kolko's arguments and findings are usefully discussed in context by Thomas K. McCraw, "Regulation in America: A Review Article," *Business History Review* 49 (1975): 164–71.

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8. James Weinstein, *The Corporate Ideal in the Liberal State, 1900–1918* (Boston: Beacon Press, 1968).
9. James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca: Cornell University Press, 1986). As its title indicates, Livingston's book goes well beyond the role of big business in promoting the central bank. In that struggle Livingston sees big business as shaping itself into a legitimate, effective, and—subsequently—dominant social class in American society.
10. Edward D. Berkowitz and Kim McQuaid, *Creating the Welfare State: The Political Economy of Twentieth Century Reform*, 2nd ed. (New York: Praeger, 1988); also Kim McQuaid, *A Response to Industrialism: Liberal Businessmen and the Evolving Spectrum of Capitalist Reform, 1886–1960* (New York: Garland, 1986).
11. Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass: Harvard University Press, 1977).
12. The relationship of the generalization to two points made by Robert Higgs in his chapter on the Progressive Era in *Crisis and Leviathan* should be apparent: first, "the novelty of the early twentieth century was the undisguised position taken by a growing number of businessmen . . . that government should intervene more actively in the affairs of business, particularly big corporate business, and that the intervention should be ongoing and institutionalized." And second, "as never before, fundamental social, political, and economic problems appeared susceptible to expert management, even 'solution.'" Higgs, 115.
13. Galambos, "Technology, Political Economy, and Professionalization," 480. A similar distinction was made earlier by Ellis Hawley, "The Discovery and Study of a 'Corporate Liberalism,'" *Business History Review* 52 (1978): 314.
14. Martin J. Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law, and Politics* (Cambridge: Cambridge University Press, 1988). Sklar's impressive study appeared after this essay was first drafted in 1986. Were it not for the accompanying review article (Robert Higgs, "Origins of the Corporate Liberal State," CRITICAL REVIEW 5, no. 4 [Fall 1991]), whose reactions to Sklar's analysis I share, I would have given more attention to his analysis in this revision.
15. Higgs, *Crisis and Leviathan*, 241–2.
16. Robert H. Wiebe, *The Search for Order 1877–1920* (New York: Hill and Wang, 1967). Mention should also be made of Wiebe's earlier work, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, Mass.: Harvard University Press, 1962), which, as hinted in the title, broke from the progressive-liberal tradition emphasizing conflict between business and the reform impulse.
17. Wiebe, *The Search for Order*, 187, 188.
18. Ibid., 166.

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19. Galambos, "Technology, Political Economy, and Professionalization," 493.
20. Ibid.
21. Higgs, *Crisis and Leviathan*, 115–16.
22. In addition to *The Visible Hand*, an indispensable essay in the same vein is Thomas McCraw's "Rethinking the Trust Question," in Thomas K. McCraw, ed., *Regulation in Perspective: Historical Essays* (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1981), 1–55, a brilliant exposition of the economic vocabulary necessary to understand the rise of big business which, had it been available and understood by Progressive-Era critics of big business, might have tempered their criticism. For critical counterpoint which nonetheless expresses grudging admiration for Chandler's achievement, see Richard B. Du Boff and Edward Herman, "Alfred Chandler's New Business History: A Review," *Politics and Society* 10 (1980): 87–110.
23. William R. Brock, *Investigation and Responsibility: Public Responsibility in the United States, 1865–1900* (Cambridge: Cambridge University Press, 1984), and Peter Wallenstein, *From Slave South to New South: Public Policy in Nineteenth-Century Georgia* (Chapel Hill: University of North Carolina Press, 1987). My paper owes a great debt especially to Brock's work, though I have a less sanguine view than he does of the evidence he explores.
24. Woodrow Wilson, *The State: Elements of Historical and Practical Politics*, rev. ed. (Boston: D. C. Heath, 1900; 1st ed. 1889), 469, 473.
25. Ibid., 478.
26. James Bryce, *The American Commonwealth*, 3rd ed. (New York and London: Macmillan, 1895; 1st ed. 1888). The account of Bryce's difficulty in obtaining information on state laws is given in Brock, *Investigation and Responsibility*, 1.
27. Albert Shaw, "The American State and the American Man," *Contemporary Review* 51 (1887): 695–711.
28. Ibid., 696.
29. The reference, of course, is to Jonathan R. T. Hughes, *The Governmental Habit: Economic Controls from Colonial Times to the Present* (New York: Basic Books, 1977). There is now a revised edition: id., *The Governmental Habit Redux* (Princeton: Princeton University Press, 1991).
30. Shaw, "The American State and the American Man," 698.
31. Ibid., 700.
32. Ibid., 700–701. Some years ago I proposed the hypothesis that late nineteenth-century interest rates were higher in the Western and Southern states than in the Eastern states because federal bank regulations made it disproportionately difficult to establish banks in the South and West. Lender competition, therefore, was less effective in those sections. Some of my critics, in good scholarly fashion, countered with the hypothesis

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that lending was riskier in the West than the East, and so higher interest rates were justified by market considerations. I believe they were referring to the risks of farming—the weather, the grasshoppers, and all that. Albert Shaw's statement here suggests to me that the risk and regulation hypotheses can be combined: interest rates were higher in the West because there was a greater risk of regulation, among other risks, in that section of the country.

33. Ibid., 701.
34. Ibid., 703.
35. Ibid., 705.
36. Ibid., 710.
37. Bryce, *The American Commonwealth*, 540–41.
38. Ibid., 544n1.
39. Ibid., 546, 547. Higgs cites Bryce on the American *belief* in laissez faire as evidence favoring the proposition that "the ultimate check on the growth of government in the late nineteenth century was the dominant ideology." Recognizing Bryce's contrast of American belief and American practice, Higgs nonetheless expresses the opinion that "the era itself witnessed quite limited intervention." *Crisis and Leviathan*, 83, and 295n19. It should be evident that I disagree with Higgs on this interpretation. I am more persuaded by Hughes's argument, in *The Governmental Habit*, that significant government intervention in economic life was always present in America's past.
40. Bryce, *The American Commonwealth*, 544–5.
41. Thomas C. Cochran, *Railroad Leaders, 1845–1890: The Business Mind in Action* (Cambridge, Mass.: Harvard University Press, 1953), 190.
42. Quoted in ibid., 185.
43. Ibid., 191.
44. Ibid., 197.
45. Charles W. McCurdy, "American Law and the Marketing Structure of the Large Corporation, 1875–1890," *Journal of Economic History* 38 (1978): 637.
46. Ibid., 639–43.
47. Ibid., 643–7.
48. Gary D. Libecap, "The Rise of the Chicago Packers and the Origins of Meat Inspection and Antitrust," *Economic Inquiry* 20 (April 1992): 242–62, esp. 258–60.
49. Brock, *Investigation and Responsibility*, 86.
50. Higgs, *Crisis and Leviathan*, 106, describes the Progressive Era as witnessing "expanded politicization of economic life." I see the point as being valid only insofar as economic issues (trusts, money, banking, regulation, trade practices, and the like) were—possibly—more the subjects of discussion in *national* politics than had been the case before 1900. The operational trend of big government in the Progressive Era and its trend ever since has been to *depoliticize* economic issues by making them the province of agencies,

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commissions, experts, and so on, rather than the province of the parties, Congress, and even the president. This, in turn, is explained by big business's unpleasant experience with state-level politicization of economic issues in the late nineteenth century and its consequent leadership in the Progressive reform movement as it pertained to economic issues.

51. That small business reacted to the rise of big business by seeking antitrust laws at the state and federal levels is documented by Sklar, *Corporate Reconstruction of American Capitalism*, 109–10; by Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass.: Harvard University Press, 1990), ch. 3; and by Libecap, "The Rise of the Chicago Packers and the Origins of Meat Inspection and Antitrust."
52. On the progressive view of state government and party politics, see Brock, *Investigation and Responsibility*, 13–19; and Samuel P. Hays, *The Response to Industrialism, 1885–1914* (Chicago: University of Chicago Press, 1957), ch. 7. On the state backlash against Progressivism, see Wiebe, *The Search for Order*, 213–14.
53. See Weinstein, *The Corporate Ideal in the Liberal State*, 30–35.
54. Isaac Seligman in National Civic Federation, *Proceedings of the National Conference on Trusts and Combinations* (1907) (New York: National Civic Federation, 1908), 174–5. I first came across the Seligman reference in Peter Hamilton Crawford, "Business Proposals for Government Regulation of Monopoly, 1887–1914" (unpublished Ph.D. diss., Columbia University, 1963), 273. Crawford's dissertation develops the thesis that a number of pressures external to business led business leaders to propose federal regulation of monopoly. One of them was the widespread antitrust legislation of states. A lot of this legislation came after the 1890 Sherman Act at the federal level, so Crawford sees it as only one of several pressures pushing business toward new proposals for regulation in the area of monopoly.
55. National Civic Federation, *The Trust Problem* (New York: National Civic Federation, 1912), 7.
56. Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877–1920* (Cambridge: Cambridge University Press, 1982), 4.
57. Ibid., 9.
58. Higgs, *Crisis and Leviathan*, 55.
59. See ibid., "The Ideological Winds Shift," 113–16.
60. Eli F. Heckscher, *Mercantilism*, rev. ed., vol. 1 (New York: Macmillan, 1955), 43.

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Alec Nove

IDEOLOGY, PLANNING AND THE MARKET

In Alienation and the Soviet Economy, *2nd ed., Paul Craig Roberts attributes the excesses of war communism, the resistance to market-type reforms, and the retention until very recently of administered material allocation in the Soviet Union, to Marxist ideology, and in particular to Marx's views on the link between markets and "alienation." However, war communism was due in some part also to war emergency, and it was not only ideology but also the interests of the ruling stratum that delayed the much-needed move towards a market economy. There are indeed problems in reconciling socialist ideas with efficiency and entrepreneurship, and Lange's attempt to define a sort of neoclassical socialism was unsatisfactory. However, it does not follow that the only alternative to Soviet-type planning is untrammelled laissez faire. Our own system can also give rise to alienation, and to the need for action by public authorities to take care of environmental and other externalities and provide essential social services.*

In his introduction to the new edition of *Alienation and the Soviet Economy* (Holmes & Meier, 1990), Paul Craig Roberts notes what he calls the "collapse of the socialist era," the failure of the prolonged and futile attempt to substitute plan for market. The failure was, so to speak, predestined: a

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Alec Nove, Centre for Development Studies, Adam Smith Building, University of Glasgow, Glasgow G12 8RT, telephone 041–339 8855, telefax 041–330 4940, is most recently the author of *Was Stalin Necessary* (Weidenfeld & Nicolson, 1992).

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normal, complex industrial economy cannot be effectively or efficiently coordinated in the manner that Marxian socialist thought had envisaged. On this I have absolutely no disagreement with the author. In successive editions of my textbook on the Soviet economy, and more recently in the opening chapter of my *Economics of Feasible Socialism*, I tried to show the *systemic* nature of the deficiencies of Soviet planning, as well as the utopian, unreal, misleading nature of Marx's ideas about socialism. Yes, as Roberts says in his introduction, much of Soviet economic history can indeed be seen as "a product of the interaction of Marxian intentions with a refractory reality"—provided one allows for the complex and changing content of the word "intentions," and also for the ambiguities of the word "Marxian." Thus, while (say) Bukharin in 1919 was a true Marxian believer, a fanatical ideologist, Stalin's satraps in 1938 have a close resemblance to cynical thugs, and his own cavalier treatment of Marxist dogma was surely notorious. One of his secret police officers is alleged to have said: "If Marx fell into our hands, within a week we would have him confess that he was an agent of Bismarck." So ideology of 1919 and ideology of 1938 vintages are not the same wine, whatever may be the text of the label on the bottle.

An examination question which I never put would read as follows: "To understand Stalin's Russia it is more important to study Peter the Great than Karl Marx; discuss." It is this view, admittedly one-sided but by no means illegitimate, that Paul Craig Roberts emphatically will have none of. Let me briefly develop it. Peter the Great, who certainly never read Marx, sought to mobilize all of Russian society in an effort to catch up with the more developed West. He used forced labor on a grand scale. He set up state manufactories, working to state-imposed plans, to produce guns, uniforms, ships, sail-cloth, paper for the bureaucracy. He forced the old ruling stratum, the boyars, to accept the status of service-gentry, serving the state for life. He was a prototype of the quasi-totalitarian barbaric modernizer. The parallel was noted by many. Thus the poet Maximilian Voloshin wrote that "Peter the Great was the first Bolshevik," and the philosopher N. Berdyaev and the economic historian Alexander Gerschenkron expressed similar views.[1] Now it is perfectly true that Stalin, when *he* mobilized all of society to carry out his barbaric modernization, cited Marx to legitimate his actions. It could be that Marx's ideas inspired him to act, though some—for instance the émigré jurist Chalidze—have argued that he had profound contempt for both Marx and Marxists, but had perforce to use that language by reason of the position he held as leader of a *Communist* party.[2] He certainly did his best to kill more Marxists than anyone before or since.

Paul Craig Roberts can counter with many a quotation from Marx to

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show that the latter did indeed envisage a socialism without "commodity production." With this view I have no dispute. However, in Roberts's hands the overcoming of alienation through the elimination of the market is the very essence of Marxism. Surely Marx had a number of other strings to his theoretical bow. He also imagined the state withering away, the control of the economy by the "associated producers," the abolition of bureaucracy and of the standing army, the "overcoming" of the division of labor, an end to censorship and to capital punishment. Nothing in Marx about a privileged *nomenklatura* stratum, or a one-party dictatorship, an almighty terror machine or demi-god despot. I have myself written that Marx cannot be absolved of responsibility for Stalinism, *not* because this is how he envisaged socialism, but because the way he *did* envisage socialism was an unrealizable utopia.[3] The state naturally did not wither away, the "dictatorship of the proletariat" was an impossible contradiction in terms, former workers in authority set a high value on privileges. As Mihajlo Marković contended, Stalin advanced through gaps in Marx's arguments.[4] His doctrines weakened the defenses against abuse of power, and the marketless economic system he envisaged could not function without a bureaucratic apparatus which, not surprisingly, could and did abuse its power, in ways Marx did not foresee. State ownership of all the means of production provided immense opportunities for the suppression of the individual, for his "alienation," and for despotic rule.

Many have noted that, contrary to what Marx expected, "Marxist" governments came to power in semi-backward, developing countries, his doctrines having appeal to those who wished to transform them rapidly through revolutions from above. This process of transformation involved overriding the market by means of centrally imposed development plans. In Stalin's case there was also the supreme goal of creating the basis of military power and a modern armaments industry. It was Oskar Lange (more on him later) who referred to this system as "a war economy *sui generis*." The degree of central planning, and suppression of the market, typical of—for instance—the British economy during World War II suggests that this was a fruitful parallel. Stalinist centralization was accompanied by military slogans ("fronts," "bridgeheads," "storming," "shock-brigades"), a stress on imminent danger to justify rigid control, economic and political. So it was not just a matter of Marxist ideology.

Nor can Lenin's excesses be blamed entirely on Marxism. Let us take the hyperinflation which all but destroyed the currency in the years 1918–23. It is easy to find quotations from Marxist luminaries of the period, or from the party program adopted in 1919, about the hoped-for abolition of money. I myself have drawn attention to a seminar in Petrograd which in 1919–20 discussed how to operate a moneyless economy.[5] But at exactly

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this same time the fate of the ruble was paralleled by that of the German mark. By coincidence, the year 1923 saw in both countries the apogee of hyperinflation (matches costing millions of marks and a similarly absurd number of *sovznaki* rubles), followed by the stabilization of the currency, with the *Rentenmark* and the *chervonets* replacing worthless German and Russian paper. So can it be sufficient to ascribe what happened to the Russian currency solely to the (undoubted) fact that Marx envisaged a socialism without money?

Which brings me back to three important arguments in Roberts's book. The first relates to war communism, the second to the nature of the Soviet "planning" system, and the third to what he calls the "Lange paradigm."

Anyone familiar with what is usually called "war communism" has to face the problem of interpretation: how much did "war" and how much did "communism" (ideology) contribute? Roberts gives overwhelming priority to ideology. So, in a challenging work, does the Hungarian scholar Laszlo Szamuely,[6] and so does Peter J. Boettke.[7] It is, in my view, legitimate to criticize Dobb and Carr for giving more than its due to the war emergency. Clearly, faced with a recalcitrant reality and an exceedingly difficult situation, the Bolsheviks' actions *were* deeply influenced by their ideology: how can one fail to notice this when reading Bukharin's *Economics of Transition Period*, Trotsky's speeches, the 1919 party program, or policy statements by Larin, Preobrazhensky, Milyutin, Lenin himself? Indeed both Lenin and Trotsky, Bukharin too, later spoke of their illusions, of thinking that it was somehow possible to advance directly towards socialism-communism, even though, as such Marxists as Kautsky, Martov, and Plekhanov, pointed out at the time, Russia was plainly not "ripe" for anything of the kind. This last point is by no means irrelevant: there were a whole number of people who considered themselves orthodox Marxists, who therefore believed in the *ultimate* surmounting of markets and money in a highly developed economy, who yet argued strongly that what Lenin and his comrades were doing was *contrary* to Marx's ideas. When, ten years on, Stalin forcibly collectivized the peasantry, it may then too be tempting to assert that he did so on grounds of ideology, since this did point towards collectivism. But if "ideology" includes what the founding fathers actually wrote on the subject, then the use of force against the peasantry to collectivize them was quite illegitimate. Indeed Stalin actually quoted a passage from Engels to this effect. To keep himself in line with ideology he had to lie, asserting that the peasants (apart from the *kulaks*) were overwhelmingly in favor of collectivization, so that it was not a coercive operation.

However, to return to war communism. Total mobilization of people and resources for civil war was surely an overriding policy imperative,

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whatever its ideological underpinning. It would have been astonishing were it otherwise. Take the requisitioning of farm produce, entailing compulsory deliveries at state-fixed prices. The first steps in this direction were taken with the Tsar still on the throne. The Soviet economist V. Mau entitled his recent article on this subject "Half-Way to War Communism."[8] He there refers to the imposition of delivery quotas at fixed prices in 1916 and to proposals for state monopolies on purchases of grain, cotton, and fuel. But we would all agree that the Tsar's ministers were not Marxist ideologists! As Solzhenitsyn points out in his *1916*, the food shortages which led to the fall of the Tsar were in part due to the reluctance of the peasants to deliver food at these prices. Hunger, disruption, civil war, the lack of goods to exchange with the peasants, *and* ideology, pushed the Bolsheviks into ruthless requisitioning and banning private trade. It is true that a peasant trying to take pork to the market in 1919 faced Bolshevik barrier-detachments and courted arrest. Ideological reasons *only*? But a farmer in Lancashire trying to sell pork in Manchester in 1941 would also have been arrested! In my book, *An Economic History of the USSR*, I try to stress the mutually reinforcing aspects of ideology and emergency, accepting that some of the ideologically inspired actions helped to make the emergency situation worse, leading to what could be called excessive excesses. If I may be permitted to quote myself: "Who knows what reforms, policies, remedies, they may have proposed in less troubled times? But in less troubled times they would not have been in power. . . . We must allow for the interaction of Bolshevik ideas and the desperate situation in which they found themselves. . . . The entire process reached its apogee at the end of 1920 and was undoubtedly influenced by ideology which was so widespread among the party during the period of war communism."[9]

Where in my view Roberts is right is in seeing the decisive role of ideology in *delaying the abandonment* of war communism once the civil war was over. Lenin and his comrades imagined that recovery from ruin and starvation would proceed by these same methods, and suggestions for replacing requisitioning by a tax in kind, which emerged already in the spring of 1920 from both Trotsky and Larin, were firmly rejected.[10] Even as late as the end of 1920, the Bolsheviks tried to force the peasants to sow through the so-called *posevkomy*, and what remained of small-scale industry was nationalized on 29 November 1920. Nevertheless it is going too far to say that the change, when it came, "was not introduced on the grounds that the civil war was over" (36). Yes, the reasons given were that the peasants would no longer tolerate requisitioning. But *this* was because the civil war was over, and everyone knew it. As Bukharin put it, "once the Red Army stormed Perekop" (i.e. forced the last White army out of the

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Crimea), "the illusions of war communism burst."[11] Bukharin and Trotsky had been advocating militarization of labor in 1920, and finding doctrinal reasons for so doing. By 1922 neither of them referred to such proposals again. If Marxist ideology, and not the ruin and chaos around them, determined their attitude in 1920, had they then ceased to be Marxists in 1922? Were circumstances not the decisive factor, even if Marx did refer to "labor armies" in the *Communist Manifesto?* I accept that their Marxism did influence their 1920 position on this and other matters, but so did the civil war and its consequences.

However, all this said, it *is* important to note the ambiguities of Lenin's position. On the one hand he saw NEP as a necessary return to the right road, and some Soviet sources suggest that the hard lessons of "war communism" had caused him to rethink his own ideas about a socialist transformation. On the other hand, he also presented NEP as a hateful retreat before the forces of the petty bourgeoisie, which secrete capitalism daily, hourly. War communism he also likened to the first Japanese assault on Port Arthur (in 1904) which was repulsed with heavy losses, after which they learned the hard way how to besiege and capture the fortress, which they did the following year. Many Bolsheviks were never reconciled to the mixed economy of NEP and longed to return to the assault; Stalin led them that way in 1929. I advanced these arguments in an article published in *Voprosy istorii*,[12] but they were already in my *Economic History*, published in 1969, a book to which, alas, Roberts never refers.

Now to Soviet planning of later years. I recall reviewing the 1971 edition of Roberts's book, and puzzling over his notion that the basic reason for maintaining the administered allocation of industrial inputs was Marx's negative attitude to trade in means of production. It seemed to me then, and still seems to me now, that the obvious reason for keeping the admittedly inefficient system of "material-technical supply" was that it is the obverse of the coin of production planning: the output plan of any enterprise is the sum total of its supply (delivery) obligations. If enterprises were to be free to choose suppliers, the suppliers would have to be free to adjust their output to their customers' requirements, and this would be inconsistent with the basic principle that output is determined not by the market but by the plan, by planners located in various committees, ministries, departments. For reasons of ideology only? Surely by the time Roberts's book first saw the light of day, i.e. in Brezhnev's time, the USSR was ruled by men who cared little for the writings of Karl Marx. But they cared much for the interests of the *nomenklatura* officialdom, most of it engaged in replacing the invisible hand of the market by *their* hands. So it is only logical to suppose that they felt threatened by any major extension of the role of autonomous market forces in the processes of production

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and material allocation. Whatever may have been the original inspiration of Lenin and his comrades, it seems implausible to ascribe the resistance of the *nomenklatura* class to market reforms primarily to what Marx had written a hundred years earlier. Paul Gregory rightly refers to "the bureaucracy's self-generated need for non-market regulation," because "in a market economy the *apparatchiki* would wither."[13]

Of course, the professional ideologists and political economists provided arguments taken from Marxist texts to legitimize this resistance. I do not say that ideological stereotypes exercised no influence on the minds of decision makers in these years, only that where material and career interests are involved, they frequently help to explain attitudes, and explain also the choice or survival of ideological stereotypes. There are plenty of examples in history of doctrines ignored or discarded, or reinterpreted, if this was in the interests of those in power. Marx was an internationalist, but who would deny the potency of Russian nationalism, especially in Stalin's last years?

My textbook on the Soviet economy has gone through several editions since 1961 and (again alas) is not mentioned by Roberts. I did there attempt what he says we all failed to do, i.e. to describe "a central process of plan derivation." I also noted that while "the plans so derived" are *supposed* to "organize and control economic activity" (to cite Roberts's words), what actually happened is something else again. Plans are the result of a multitude of influences: the priorities and policies of the leadership; pressures from lower echelons of the hierarchy, sectoral and regional; the crude input-output calculations of the plan-coordinating agencies; and the need to assuage popular discontent. The process of current (as distinct from longer-term) planning began with the collection from enterprises of their input requirements for the following year. Plans when drafted were necessarily aggregated and, as Roberts says, the actual plan instructions passed down to enterprises were greatly influenced by past performance, proceeding "from the attained level." They were also influenced by the proposals and by information sent upwards by management. So much so that, as one of their economists put it in conversation, "most commands are written by their recipients." In real life management has room for maneuver, and what it chooses to do or refrains from doing has a profound effect on performance and on the quality of the "micro" product mix. And, as any study of Soviet plans bears out, published plan targets were repeatedly missed, sometimes by wide margins, and plans (annual, quarterly, quinquennial) were frequently altered during their period of currency. Others also not mentioned by Roberts have been pointing this out for years: Joseph Berliner, for instance; Michael Ellman; Paul Gregory and R.C. Stuart.[14] It is quite correct to say that the planning system of the Soviet

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type did not conform either to what Marx imagined, or to any tidy model of what centralized planning was supposed to look like. Roberts is right to point out that the sheer scale of the task of the planning mechanism presents the planners with an impossible task. One recalls academician Fedorenko's quip: to draft a fully checked, balanced and disaggregated plan for next year would, with the help of computers, take about 30,000 years.

Recognition of these facts led a number of individuals (Roberts is joined here by Wilhelm, Zaleski and Ticktin, among others)[15] to assert that there *was* no centralized planning. My reply to them was: the confused and contradictory picture of often unfulfillable or unfulfilled plans, the product of many conflicting influences, *was* centralized planning. There could be no other, in the real world. The contradictions are inherent in central planning, because, for reasons which all these scholars point to, a tidy uni-hierarchical model is impracticable, if only because of the associated diseconomies of scale.

There is and cannot be *one* visible hand to replace the invisible one. The many hands located in separate ministries, offices, localities, acquire influence over the plan process and can affect both intentions and outcomes. As many have long pointed out, when instructions are numerous, and issued by different offices in the hierarchy, they are often contradictory, and subordinates have some choice as to which orders to obey. Several Soviet economists have argued (as others too have done) that the "command" economy is really a complex *bargaining* economy. For all these reasons, I headed the relevant chapter in my textbook "Centralized Pluralism." A Soviet colleague who read it said that he personally preferred the term "polycentrism." So does Roberts. Nothing wrong with that! We evidently mean the same thing. Presumably none of us would deny that when the center, in the "traditional" system, did issue a high-priority order, making it clear that its implementation would be monitored by high officials, then it was usually obeyed. Especially was this true under Stalin, when open disobedience could mean (literally) death. But even when terror subsided, the center could issue binding orders not only on big investment projects or matters military, but also on areas sown to corn, or to grasses, or on deliveries to the state of meat. We must not go so far as to say that commands were never obeyed, that there was no hierarchical subordination. Some of the most familiar distortions in the Soviet system were due to attempts to carry out orders from above—as when, presented with a compulsory plan in tons, the management sought to make heavy products, thereby wasting metal.

Commanders in hierarchies do not operate in a vacuum; they are influenced profoundly by their nominal subordinates, and indeed this is so in

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any large organization, east, west and south. It is a pity that Roberts did not extend his very interesting analysis of hierarchy, authority, and responsibility to take into account the large Western corporation. He might have focused on the similarities as well as the differences between, say, Du Pont and the Soviet ministry of chemical industry. Evaluating the performance of subordinates in a hierarchy is a problem which besets us all (in universities too). Unfortunately the neoclassical paradigm is of little help in understanding such matters, since, in the words of Harold Demsetz, perfect competition is "perfect decentralization," and, *pace* Oliver Williamson, hierarchies do not exist primarily because of transaction costs.

Which brings me to Oskar Lange. I entirely agree with Roberts: Lange's model is inapplicable to real life. It amounts to a simulated world of perfect markets, populated by managers of publicly owned enterprises who apply the marginal rule, with the Central Planning Board in the role of Walras's auctioneer. Yes, "in real world conditions characterized by the passage of time (and uncertainty) the marginal rule gives no clear guidance . . . to organize production in accordance with it" (97). However, it needs to be said that *this* critique of Lange is simultaneously a critique of Walrasian general equilibrium models. Though he does note that "economists should be derided, perhaps, for their lack of perception" in responding to Lange, Roberts does not make it clear that Lange was addressing the problem in a Walrasian context, and so were his critics, at first. Israel Kirzner has argued in a conference paper that Ludwig von Mises had to rethink his position, and one consequence was to develop the "Austrian" stress on entrepreneurship, risk-taking and disequilibrium, i.e. on essential features of the (non-Walrasian) real world of time, which neither Lange nor his orthodox neo-classical critics were addressing.

The word "alienation" is in the book's title. The author sees it as almost exclusively related, in Marx, to "commodity relations," i.e. the market. However, many Soviet critics of their own system have pointed to alienation as a consequence of state ownership of the means of production, with workers facing a dictatorial and bureaucratic monopolist-employer. Marketization, by creating a multiplicity of employers and also providing avenues of participation (employee buyouts, cooperatives) and opportunities for individual entrepreneurship, acts to reduce the sense of alienation. Clearly, Marx did not foresee nationalization in its Soviet-Stalinist form, though Engels did once remark that if state ownership defined socialism, then the first socialist institution was the regimental tailor.

Which leads me to some words of criticism. This thought-provoking and challenging book equates "socialism" with Marxism, and with Marx's utopian vision, as interpreted by Lenin and Stalin. Yes, this vision is

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incompatible with the long-run survival of markets. It is also incompatible with any tolerable or efficient form of political economy. But is there no other kind of socialism which could be taken seriously? The French translation of my book on "feasible socialism" is entitled "*Socialisme sans Marx*." Perhaps too there can be an ecological, "green" socialism, based on the notion that the maximization of (corporate) profit and of individual utility would destroy our world? And it was Schumpeter who wrote: "No social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties, and in which everyone is supposed to be guided by nothing except his own short-term utilitarian interest."[16] There are one or two things wrong with our own system, and the "alienation" of an underclass does present acute social problems. There are, I suggest, quite a number of deficiencies and gaps in the neoclassical paradigm too.

This raises a number of other questions as well. Of course Roberts's book, and this review, are about Soviet-type economies. That they have collapsed, and collapsed deservedly, is not in dispute. But in criticizing them and analyzing the theoretical and practical deficiencies of Soviet "socialism," we necessarily adopt criteria, we judge by reference to other systems. Does "alienation," however defined, exist only in Soviet-type economies, or only in Marx's imagination? Do not most of our fellow-citizens have to obey people and anonymous forces over whom, or which, they have no control? Most unemployed do not "prefer leisure." What is the difference between profit maximization and greed? Is Roberts assuming, should we implicitly assume, that the untramelled pursuit of private profit, with minimum role for the state, provides the answer to the economic, social and ethical problems of the modern world? It should be recalled that Adam Smith also wrote a book entitled *The Theory of Moral Sentiments*. The idea of social justice, however ill-defined, can call for social-political activism. True enough, Soviet practice, especially in its Stalinist form, was full of social *in*justice, just as Soviet-type economies in practice followed environmentally disastrous policies (whereas socialist theorists of the past would have expected governments committed to the socialist idea to give some priority to ecological or "green" questions).

What, then, of socialism as an idea, or ideal? It has certainly been tainted by its association with the oppressive and inefficient Soviet model, and so the very word is suspect in Eastern Europe. So much so that, so I was told by colleagues in Prague, even Ludwig Erhard's concept of *soziale Marktwirtschaft* is rejected, because of the inclusion in it of the suspect word *soziale*. Many see laissez faire, the ideas of Milton Friedman and Margaret Thatcher, as the only coherent alternative to the "really existing socialism" that they rightly have rejected.

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This bothers me on several counts. First, it confuses the textbook perfect market with the messy real world. The textbook model is projected to Eastern Europe by free enterprise missionaries, and also finds expression in the works of "new classical" economists in the West, some of whom seem to believe in what I would call "Dr. Pangloss-economics": whatever is, is optimal, government intervention to correct market distortion is both impossible and unnecessary because (market) economies function optimally, everything and everyone being in preordained equilibrium. (Therefore, if the real capital market permits the Savings and Loans disaster, junk bonds, BCCI, etc., then it could only be that the cost of preventing them had to exceed the benefits, by definition!) Second, does it make sense, in reacting against the excesses of so-called collectivism, to replace them with the excesses of methodological individualism? "There is no such thing as society," Mrs. Thatcher has said. There is no forest, there are only trees. The whole is the sum of its parts and nothing else. Yet there are cases where this is a grossly inadequate paradigm. Urban transportation is an evident example: if all try to get to work by car, they will collectively achieve paralysis, which is why (except in Mrs. Thatcher's ideologically extremist Britain) public transport is usually subsidized and provided by public authorities, with operational and efficiency criteria which are not narrowly financial. There is town planning: an elegant avenue or terrace in Paris, Bath, Edinburgh or Turin cannot be seen as just the sum of its component parts, since any action altering one of these components reacts back, has an external effect, upon the others, so intervention to restrict an individual owner's desire to build or to demolish is in the general interest. So town planning, zoning, seem essential, even if the right-wing ideologists can cite examples where the planners have made mistakes. Then there is the wider issue of "megalopolises," of which Mexico City and Sao Paulo can serve as examples: left to the free play of market forces, these cities will strangle themselves (20 million is soon to be the population of Mexico City); regional policy by governments is required to try to correct ecologically and socially dangerous imbalances. Then there is the infrastructure, economic and social: drains, water supply, roads, urban rapid transit, ports, parks, street lighting, rubbish disposal, which, for reasons that should be obvious, require public authorities to act in the general interest, both because of the positive external effects, or negative ones, as when streets are dark and rubbish not collected, and because private enterprise left to itself would not find it profitable to provide them—though of course the public authority could hire private contractors if this was the most economical way to proceed. Then there is the problem of natural monopolies. It is plainly wasteful to lay "competing" water pipes or electricity cables under the same streets, so the provider is a monopolist,

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which is a powerful argument for public ownership, or for public regulation.

Even orthodox neoclassical economics recognizes the "free rider" problem: two examples are scientific research and technical training. If the results and the products are available free of charge to other firms, then it pays no firm to spend sufficient sums for such purposes. Alternatively, research and training can be seen to yield substantial external economies. (Yet Mrs. Thatcher's ideologists sharply reduced state expenditures on research and training, on the grounds that private profit is the appropriate guide, thereby contributing to the decline of British industry.)

It is odd that persons presuming to follow the ideology of Adam Smith appear unaware that the great man wrote of "public works and public institutions which it can never be in the interest of individuals or groups of individuals to erect and maintain, because the profit would never repay the expense, although it may frequently do much more than repay it to a great society." Note the words "great society."[17]

All this must sound like heresy to many of the readers of CRITICAL REVIEW, who really do believe that the state's functions can be limited to national defense and possibly road-building. Laissez faire as a cure for environmental pollution? Or urban congestion? Is a "no left turn" or a "no-parking" notice an intolerable interference with liberty and privately owned cars? Are justice and the police to be privatized too, selling their services to the highest bidder? Can one really believe that privatizing national parks would enhance human liberty? Can even neoliberals tolerate the deaths of poor mothers in childbirth unless some charity pays for their care, or for ambulances not to pick up an injured man unless they first examine his wallet? Do they really believe that education can just be privatized? (Voucher schemes, or taxes on polluters, also require action by public authorities!) On a more materialistic level, have West Germany's welfare arrangements (now being extended, at considerable expense, to the east) prevented the investment which has made that country one of the world's most successful industrial manufacturers and exporters? Is the choice really between pure laissez faire and centralized Soviet-type "planning"? Is there no price worth paying for social peace?

Public choice theorists are right to remind us that politicians and public servants are fallible mortals with interests of their own, but here too individualism goes too far. We are not (except tautologically) *individual* utility maximizers. Nearly all of us (James Buchanan too) identify with our area of responsibility, take pride in work well done, have some beliefs and objectives other than (or additional to) that of maximizing our material well-being. And loyalty and commitment have an effect on quality of output, material or intellectual.

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Finally, turning to the specific problem facing East European countries and Russia, the vast tasks of readjustment and structural change. Can we really believe that laissez faire would achieve the desired result, without intolerable social convulsions and unnecessary impoverishment? Particularly if one bears in mind the scarcity of private capital and private savings? Can no lesson be drawn from the experience of South Korea and Japan, where major investment decisions involved the state as facilitator and coordinator, and also Western Europe when *it* was recovering in the first postwar decade? Neoclassical textbooks are at their least convincing when they deal with investment. Nor is this surprising. If one is wedded to the general equilibrium paradigm, how can one handle investment decisions, which are made in the real world in the expectation of *dis*-equilibrium? Otherwise, whence the profit? It is simply not the case that rational investment decisions are most likely when there is the closest possible approach to perfect competition and perfect markets. On the contrary, in such a situation the profitable opportunity to invest would, by definition, be known also to all your competitors. As a wise Oxford economist, G. B. Richardson, pointed out, a profitable opportunity known to everyone is available to none.[18]

This is not an argument for "socialism," of course. Neither Japan nor South Korea, nor postwar Germany, are socialist. It merely underlines the limits of laissez faire, and this ought to be particularly relevant to the former communist-ruled countries, given their lack of private capital and the scale of the required structural change. One needs a counterweight to individualistic extremism, which downgrades social needs and neglects externalities.

NOTES

1. N. Berdyaev, *The Russian Idea* (Boston: Beacon Press, 1962), 15; Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1962).
2. V. Chalidze, *Pobeditel' kommunizma* (*Victor over Communism*) (New York: Chalidze publication, 1981).
3. See Alec Nove, ed., *Was Stalin Necessary* (London: Weidenfeld & Nicolson, 1992).
4. Mihajlo Markovic, "Stalinism and Marxism," in Robert Tucker, ed., *Stalinism* (New York: W.W. Norton, 1977), 299–319.
5. In a contribution to O. Sik's *Festschrift*, reprinted in *Socialism, economics and development* (London: Allen & Unwin, 1986), 51ff.
6. Laszlo Szamuely, *First Models of Socialist Economic Systems* (Budapest: Akademia Kiaido, 1974).

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7. Peter J. Boettke, "The Soviet Experiment with Pure Communism," CRITICAL REVIEW 2, no.4 (Fall 1988): 149–82.
8. V. Mau, *Kommunist* no.18, 1981.
9. Alec Nove, *An Economic History of the USSR* (London: Penguin, 1989), 36, 38, 55 (*pace* Boettke, who claimed that I ignored ideology).
10. See Trotsky's "New Course," translated in *The Challenge of the Left Opposition* (New York: Pathfinder Press, 1975); and S. Pavlyuchenkov's note in *Argumenty i fakty*, 10, 1990.
11. Reprinted in S. Heitman's selection of Bukharin's works, *Put' k stosializmu v Rossii* (Stanford: Stanford University Press, 1968), 177–8. He also wrote: "We thought we could, at a blow, abolish all trading relations." Ibid., 288. The two quotations date respectively from 1924 and 1925.
12. Alec Nove: "O sud'bakh Nepa," *Voprosy istorii* no.8 (1989):172–6.
13. I quote from Mark Harrison's review of Paul Gregory, *Reconstructing the Soviet Economic Bureaucracy* (Cambridge: Cambridge University Press, 1990), in *Soviet Studies* no. 4 (1991): 766.
14. Joseph Berliner, *Factory and Manager in the USSR* (Cambridge, Mass.: Harvard University Press, 1955); Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1979); Paul Gregory and R. C. Stuart, *Soviet Economic Structure and Performance* (New York: Harper & Row, 1981).
15. Eugene Zaleski, *Soviet Planning for Economic Growth* (London: Macmillan, 1980); J. Wilhelm, "Does the Soviet Union Have a Planned Economy?" *Soviet Studies* 31, no. 2 (April 1979): 268–74; Hillel Ticktin, "The Class Structure of the USSR," *Critique* no. 9 (1980).
16. Joseph Schumpeter, cited by Wlodzimierz Brus in *Journal of Comparative Economics* 4 (1980): 35.
17. Adam Smith, *The Wealth of Nations*, vol. 2 (Oxford: Clarendon Press, 1976), Book IV, ch. IX, 687–8.
18. G. B. Richardson, *Information and Investment* (Oxford: Oxford University Press, 1960). For similar arguments, see Brian Loasby, *Choice, Complexity and Ignorance* (Cambridge: Cambridge University Press, 1976).

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Jan Narveson

THAT OLD-TIME RELIGION: REPLY TO HERZOG

The editor has extended to me the opportunity to respond to Don Herzog's review of my book, *The Libertarian Idea* (CRITICAL REVIEW 4, nos. 1–2 [Winter-Spring 1990]). Herzog evidently decided that what my book required was a hatchet job. This makes it difficult to respond seriously; but I'll try to do so anyway. I detail a few points here, by way of suggesting that what Herzog reviewed wasn't actually my book at all, but rather the book he supposed I must have written.

An example is provided by his opening passages, in which he says a few popular but thoughtless things about rights, paying no attention to the actual definitions provided, and none to the substantive matters at issue. Next he castigates me for abusive language, citing the case of my comment on an argument employed by fellow philosopher Tom Nagel, who has suggested that we may compel people to help support the indigent even though asking them to do so voluntarily would be "excessively demanding." I say *of that argument* that it is "shabby, corrosive, and outlandish" and that it "could only be offered by people who already believed in the antecedent justice of taxation for these purposes. . . ." I have no doubt that Nagel does believe that; the question is whether an argument of

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Jan Narveson, Department of Philosophy, University of Waterloo, Waterloo, Ontario N2L 3G1, Canada, is indebted for the generous support of the Social Philosophy and Policy Center, Bowling Green State University, where most of this reply was written.

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the kind he puts forward could do the trick were no such antecedent view established. I am sure Nagel would apply similar epithets to the same argument if applied to more familiar contexts, of which I provide the example of the Mafia collecting for Harvard—doubtless making it easier to collect funds than if the donors actually had to decide for themselves. But Herzog has decided that I am thus abusing *Nagel*, and "owe him an apology," engaging as I am in "ugly speculations about Nagel's motives or vicious characterizations of Nagel's moral imagination."

Academic authors don't have to plead for charity in interpretation: their writing would be impossible without it. Someone of Herzog-the-anti-libertarian-reviewer's temper reading Herzog's own book, *Happy Slaves*, for example, could have a field day, chortling that its author supposed that people didn't care whether they live or die. Herzog doesn't quote the argument in question, failing to mention, for instance, that I also say of one part of Nagel's argument that it is "intriguing, true, and important" (and no doubt having forgotten my praise of Nagel's "superb recent essay" on liberalism on p. 10 of my book). But where are the "ugly speculations about Nagel's motives"? My point about Nagel was that he defends the use of force to achieve certain social ends merely to avoid inconvenience, in the form of the necessity to make an effort of individual concientiousness on the contributor's part. As an argument for the use of such force, compare any extortion racket and you'll get the point—if you aren't bent on taking pot shots. A critic should be able to distinguish invective directed against persons from criticism directed against an argument; one who can't casts doubt on the reliability of the rest of his work. (By the way, wasn't it Herzog himself who entitled his caustic review "Gimme that Old-Time Religion"? Considering the program and content of the book, plus a modest amount of attention to history, his title shows evident want of perception of what the book is trying, whether successfully or not, to do.) And as to my sneers at socialists, Herzog devotes no time to my careful analyses of their bad arguments. One might also bear in mind the poison-pen invective of typical socialist writers (starting with Marx), and ask whether a certain amount of repayment in kind isn't in order.

In a short review such as Herzog's, one cannot detail arguments at the level one would like (similarly with a short reply such as this one). He is right to characterize me as a "maverick libertarian"—which makes his title a bit puzzling. I don't know quite know, indeed, whether I am a "Libertarian"—the term has assorted connotations I specifically renounce, and the book is an exploration, not a tract. It's a view I find more plausible than most of its familiar alternatives, certainly; but as to being a True Believer? Give me a break, as they say.

Herzog ascribes to me a level of support for Canadian state medical

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insurance to which I do not in fact subscribe. For what it's worth, as a matter of fact, I now think that the program is a terrible mistake. It does have much lower administrative overhead (so far, anyway) than, say, Blue Cross, and that was an important part of my argument for the possible defensibility of socialized medicare from libertarian premises. But that is not because I disown the libertarian opposition to "the dread redistributive effects" of socialized medicine. Quite the contrary. As I supposed I had made clear, what makes the argument interesting, if it is, are the particular circumstances surrounding this program. Namely: its overwhelming popularity and low overhead suggest that it can plausibly be claimed that the few who don't outrightly favor it are coming out at least as well off as they would on a private scheme, while those who receive free medical care as a result of its operation can be, should be, and in fact are regarded as a happy benefit of the scheme so long as no other fundamental objections exist. These, I argued, enable one in principle to claim that there are no unwanted redistributive effects. But I do plead guilty to inadequate research. For I now think that Canadian medicare, so popular with American intellectuals, is a scheme for cramming a great deal more medical insurance down people's throats than they would buy if they actually had their choice. And, like all social welfare programs, it is advanced on essentially dishonest premises about its actual costs and extensive concealment of those costs to the voters. Finally, it has emerged that the program also scrimps on services and facilities, for which Canadians, preferring complex heart operations to death, are now flocking to the U.S.

The question of how liberty is related to property is, certainly, the most basic one there is for the exploration of libertarian theory. I do not claim to have all the answers, though I claim to have some. Most importantly, I claim that the very idea of liberty makes no sense without an idea of property. The right of security that most liberals, presumably including Herzog, accept with regard to bodies would make no sense if one conjoined with it no claim at all over those bodies by those whose bodies they are. The question is whether this implies anything about other things besides people's bodies and minds. I think it does.

Certainly part of why it does is the structure of actions. I claim that the right to do as we please, if there is such a right, has to be the right to do as we please with assorted bits of the world, and the whole idea of doing something with something requires, certainly, appreciation of such structures. Now about this Herzog just argues that "intentions depend on concepts; concepts depend on language; language depends on society." Very true! But Herzog seems to think that something *follows* from this. One would like to know just how or what.

For instance, does it follow that theoretical physics is just so much social

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custom—since it too, is embedded in concepts which "depend on language" which "depends on society"? The particular further implication he apparently wishes to derive is that property rights are strictly legalistic notions with no substance to them apart from the whims of legislators and lawyers. This curiously fashionable view has some pretty scary consequences when you think about it. But in any case, the argument is simply unsound. We ascribe intentions to animals, quite reasonably. Does Herzog want to say that squirrels are able to put away nuts for the winter only because they share a language dependent on their society? Does he want to say that one does no damage to that squirrel if one then removes his store of winter nuts?

Herzog ignores my argument that all of this, insofar as it's true, proves nothing of the sort that he (and some other philosophers who write on these matters) is trying to extract from it. That language is social and that it likely shapes and perhaps even enables us to have many of our concepts, and so forth, proves nothing whatever about whether property rights are entailed by a general right of liberty. The sheer existence of language, and its necessity for enabling us to discuss all these matters, has no obvious connection with the subject of property rights. Communists, Nazis, liberals of all sorts, can all formulate their views, thanks to the existence of language. If some thesis of theirs would be incompatible with the very existence of language, that of course would be bad news for it. So my challenge to Herzog, in the case of libertarianism, is: O.K., name one such thesis! What the reader will find is that Herzog merely *says*, without feeling any need to *argue*, that the existence of linguistic rules shows us that we do not have private property rights. If, as he claims, my arguments are "very weak" he should presumably try producing counter-arguments for this purpose. Where are they?

Consider various native cultures, some of which indeed teach that individual land-use is "unavailable—or deeply blasphemous. . . ." I don't know whether Herzog thinks that the Indians are *right* about this, or why he should think that, if that's what they think, then we are wrong in thinking otherwise. But he might consider that current disputes with natives are almost entirely concerned with land ownership, and that their objection to white appropriation of what they continually refer to as "*our* land" is just the one that libertarians agree to be relevant, namely that the lands in question were indeed the property of those Indians, not of other people, and that they were taken from them by force and fraud. That surely sounds like libertarian talk. Of course they claim collective, not individual ownership; but that ownership can be collective rather than individual is something I explicitly recognize (e.g. 297–8), remember? Native groups around the world are prominent exemplars. But what they claim, so far as

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I can see, is that they collectively *own* various pieces of land as their property, using the term in a sense falling well within the range of my proposed definition of it. In particular, the crucial implication is that others may not just go ahead and use, without permission, what is claimed to be so owned. (W.W. Robinson observes that "the struggle over rights to hunting grounds was the cause of most Indian wars in America.")[1]

That the Indians could not sell Manhattan for a pile of beads may or may not have been because they didn't "really grasp the idea or practice of land ownership." I don't know how many Indians Herzog is intimately familiar with, but Indian proclamations and treaties from that day to this strongly suggest that they did indeed have some understanding of these fairly straightforward ideas.

Contractarian arguments, which I do regard as basic in social philosophy, are indeed difficult and need much thought. But contrary to Herzog, it does not take all that much thought to see that people do not normally agree to be punched in the nose and that when they sometimes do, as when they get into a boxing ring together for the very purpose of seeing who can punch whom most effectively, their behavior cannot easily be thought to be motivated by a desire to be punched for its own sake. I suppose Herzog wouldn't agree to be a slave or a whipping-boy under remotely normal circumstances; if you tried whipping or enslaving him, you'd get an objection. Did actual slaves in slave cultures object to being so? When offered their freedom, as on occasion slaves were (in ancient Athens, for example, and in most slave cultures I know of), that they regarded this as an improvement in their situations, so far as it goes, is a matter of record. In any case, the idea that on a libertarian view of property persons can be legitimately made other people's property by acts of force is obviously a non-starter. That the *language* of property could be used in regard to slaves ought to show that the issues being addressed here simply aren't linguistic.

On the other hand, the suggestion that "no one would agree to a system of wage labor," aside from having the modest demerit of being evidently false, is subject to the reply that wage labor *is*, by definition, agreed on. That's what distinguishes it from forced labor or slave labor. Herzog seems to think it a complaint that in taking a job, you might have to "worry, after all, that someone could gain the right to command you for eight or ten hours a day because you had to sell your labor to stay alive, and that right would be an intolerable incursion on your liberty." Now, if it's "intolerable," why do you accept the job? Any number of affluent Americans work more than that, and do so under the direction of superiors whose "right to command" their labor they have quite enthusiastically accepted. The argument Herzog here uses seems identical with ones I

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discuss and, so far as I can see, refute in the book. He doesn't seem interested in those refutations, as they are not mentioned, let alone replied to, in his review. Again, the interested reader should have a look (pay particular attention to my discussions of Cohen and Arthur, pp. 69–73 and 87–93).[2]

According to Herzog, my argument for negative liberty as entailing property rights, over against "positive" liberty as entailing the legitimacy of taxation for the benefit of the poor, etc., is a "polemical *reductio*." From Nozick we have all learned to worry about our right not to have our body parts redistributed for the benefit of the naturally disabled. Whether there is some kind of connection between this and the ownership of things external to ourselves would seem to be an important question, and much of the opening section of my book is devoted to arguing that there is such a connection.

Herzog, however, simply says that I can't tell the difference between a right to my body and a right to, say, my car: "The thought that I own my body as well as the assets in my checking account doesn't reveal that there's some deep and important parallel between taxation and eyeball-snatching. Instead it shows only that if you refuse to make any distinction, you won't notice any differences." The reader who is ready, nevertheless, to ask just what differences there are, and why, will find no answer in Herzog's review. We should also bear in mind that this comes from a writer who is unable to see why one could reasonably be thought to be interfering with the activity of someone who plants grain, intending later to harvest it, when you snatch it from him. Clearly, everything depends here on *how* one proposes to find any such parallels and Herzog, having said nothing about this and being evidently uninterested in it (after all, he already *knows* that libertarianism is wrong, so why bother with subtle arguments about it?), should not be thought to have produced a criticism here.

"Next comes the suggestion," writes Herzog, "that to impose an obligation on B to come to A's assistance is to trample on B's liberty. Once again, though, that is to presuppose just what needs to be shown, that whenever B doesn't help A, B acts within his rights." But it does nothing of the sort. That one is, certainly, *interfering* with B's proposed course of action, i.e. his liberty, when one forces him to help A is true whether or not one *thinks that B has a right* to that liberty. We are not doing semantics here. When you force someone to do something, you certainly cut into his liberty—note that the word "trample" is Herzog's here, not mine. If you think it's all right to do that, then you won't describe it as "trampling." But if it is all right, then *why* is it? Prima facie, as Hobbes says, obligation and liberty in one and the same matter are incompatible. All obligations to that extent

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abridge liberty (as I am at pains to agree, on, e.g, pp. 41–53). And from the point of view of the person whose liberty is thus abridged, that is always, I hold, prima facie objectionable. But something might certainly justify the abridgement—neither government nor any sort of morals would be justifiable if this were not so.

When my car rolls down the hill because I failed to set the brake properly, thus running you over, I violate a right of yours, namely your right to your own body, in its condition ex ante. I violate a property right of yours. This is indeed, as Herzog says (and as I, who get it from Nozick, say), a "space of moral expectations." Question: are those the *right* expectations, or are they just a function of arbitrary decisions, or perhaps nondecisions, of my social milieu? If Herzog thinks that those decisions are *not* arbitrary, that it is possible to identify reasons for some possible decisions of those kinds and against others, then his general objection to my program is simply out of place.

Does one who buys a car, parks it on a hill, and fails to set the brake properly "do" or "cause" harm to others? I would have thought so. More interestingly, the property-rights view, which I claim stems from a general, negative right of liberty, entails that I must refrain from damaging your property in whatever ways I can do this, such as being careful about my brakes. But none of this shows that nondoings are on a general par with doings. They are not. The nondoings for which we are responsible are ones requiring a background of rights, and that background, in turn, needs to be spelled out on the basis of a clear theory that does not presuppose, what is generally absurd, that nondoings are just more doings.

Herzog characterizes my way with these matters, which includes a case for some modest positive duties of aid to others, as if it were indicative of general inconsistency in my view. "Weirdly," he says, "Narveson closes his discussion of these matters by simply conceding that this is so. 'It remains [I write on p. 39 of the book] that the agent's inaction is not what literally causes the unfortunate outcome. When we nevertheless ascribe responsibility to the inactions of such persons, it will be on the basis of a background expectation that they are to do that thing.' And there are, Narveson cheerfully concedes, lots of plausible reasons for endorsing such expectations, not limited to obligations voluntarily undertaken." And then Herzog announces that my discussion of the matter "stops abruptly, or leaves the outcome up in the air." Well, my discussions of duties of charity, insurance arguments, and so on, which occupy scores of pages in the book, might not strike the careful reader as very good examples of "stopping abruptly or leaving the outcome up in the air." One can only conclude that Herzog saw no need to pay them any attention, having already decided that no such arguments are possible or necessary.

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In discussing my contractarian proclivities, Herzog rightly notes that I do not claim that we can get absolute unanimity on, say, libertarianism. Or anything else, either. But to say that "a sizable majority" is all we can get is nevertheless misleading. My argument is that those who do not accept the sort of restrictions on our conduct that is implied in thinking, say, that killing for private purposes is wrong, *have no complaint* if we come along and kill them. True, I don't think very many people genuinely would prefer the option of being hunted down and shot to that of agreeing not to shoot others, and I do not think that a moral theory has been shown to be inadequately supported if there are a few such. But this is not to say that the exceptions simply don't count. It is, rather, to give a very good and specific reason why their existence is not a conceptual problem for this type of theory.

What's wrong with American whites jointly agreeing to oppress blacks in their own interests, on contractarian grounds, as Herzog seems to think should be O.K.? Well, it leaves the blacks out of the contract; but contractarianism has always been the view that morals represent an agreement among *all*. It is one thing for some who are invited to agree to decline the invitation, thus accepting the "state-of-nature" default option, in which nobody can complain about anything. But slaves were not even given the option of discussing the matter. To suppose that *this* represents a counterexample to the contractarian theory is, really, to show lack of interest in that theory—or at any rate not enough interest to make one eligible for discussing it seriously.

After failing to appreciate the core of my contractarian argument for libertarianism, Herzog writes that "after all, we've adopted terms of social cooperation very different from the libertarian ones." This would be important if it were true. But is it? If so, who is this "we"? Who has *agreed* to these terms? Voters have indeed taken the opportunity posed by democratic political institutions to lasso the incomes of others. To call this "agreement," though, is surely to use the term very loosely. But then, I suppose that one who can't distinguish slaves from contractors can't be expected to distinguish involuntary and dissenting citizens from them either.

It is quite rational, I think, to hold that Americans, Canadians, and assorted Europeans have voted for welfare states, insofar as they have done so, primarily out of ignorance and fraud. (How many people *don't* still think that public education is "free," for instance? How many typical Canadians realize that their medical system is costing them not the trivial sums officially designated for that purpose from their paychecks each month, but something like twelve times that, amounting to about one fourth of their gross family incomes?)

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I did not and do not argue that politicians are "corrupt." But just as Heinrich Himmler was said to be a real sweetie with his kiddies, so there is the possibility that democratic politicians have an inadequate supply of political concepts. How much, after all, do they know? I do not in the least deny that politicians "endorse social welfare policies . . . because they really think helping others matters, because they're unwilling to go along with schemes that might well leave them needy and suffering." But to start right here, all politicians leave most of the world's needy and suffering in that condition. They don't think it would be right to impose an 85 percent tax on all Americans in order to relieve the need and suffering of the two billions or so of non-Americans whose sufferings are, after all, just as real as those of the typical American welfare recipient. Rather more real, come to that. . . .

I am not at all unmoved by the argument that welfare-state legislation is evil not merely because it wrongly extracts support from those who do not voluntarily support it, but also because it is so much worse *for its intended beneficiaries*.[3] I think that what's conspicuously wrong with American drug laws is that they cause so many innocent people to be killed and burgled, as well as greatly increasing the number of users of drugs. But these evils are, I believe, rooted in the basic evil of not allowing people to be themselves: of using the law to decide what people shall do and how they shall live.

Much more could be said by way of detailed reply to Herzog's review. But there is little point in saying it, since what we have are the expected and familiar, wholly question-begging assertions of the received wisdom, rather than careful dissections of the arguments with which, whatever else one can say about it, *The Libertarian Idea* is filled. Herzog does the book a disservice by talking as though what he is producing are new arguments, or indeed arguments at all. There is little intellectual utility in discussion at that level. Read the book and see whether the things he apparently thinks are failings in its arguments are in fact there. That there are serious problems in my book I am well aware, in particular in the decision-theoretic assumptions in its foundations.[4] But Herzog hasn't revealed any of them.

Herzog concludes by referring to the "irony of the gap between the poverty of Narveson's arguments and the zeal with which he embraces his libertarian conclusions," holding that "the conceptual structure of libertariaism is oddly reminiscent of that of fundamentalism: the same affection for (Lockean) sacred writ, the same inclination to equate historical change with corruption, the same insistence that simple principles are the road to salvation, the same proudly fearful rejection of others as evil sinners doomed to perdition." If what Herzog says here weren't so silly it would, certainly, be insulting. Check through my index of entries to Locke, for

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instance, and you will find that most of them are embedded in quotations from others; the few others mostly detail my *dissent* from him on several matters, with one important exception where I accept his words, denying only what he no doubt meant by them. The long and short of it, as I say, is that Herzog hasn't actually reviewed *my* book, but rather the book which he assumes I *must* have written on this subject—since, after all, that's what all the others are like. The reader actually interested in the subject may, I think, find something genuinely different there, if he but looks with open eyes. It would be a pity if Herzog's piece dissuaded them from doing so.

NOTES

1. W.W. Robinson, *Land in California* (Berkeley: University of California Press, 1979), 6. Robinson also notes that the institution of individual private property was in fact recognized and loomed large in the life of, for example, the Yuroks of Northern California.
2. I have written another paper since, "On Two Arguments about Liberty and Property," clarifying certain further aspects of the subject. Interested readers are welcome to write for a copy.
3. See Charles Murray, *Losing Ground* (New York: Basic Books, 1984), for brilliant documentation.
4. Peter Danielson, in particular, has twice advanced an important argument to which I have as yet only inadequately replied. Its basics will be found in his forthcoming book, *Artificial Morality*.

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Don Herzog

THAT OLD-TIME RELIGION: REJOINDER TO NARVESON

There is much I might say about Jan Narveson's response; it will, no doubt, confirm his sense that I neither read nor think very well to learn that I find myself still utterly unpersuaded. I might, just for instance, show that he blurs the distinction between rational agents wondering whether to adopt a social institution of wage labor and individuals in a society with that institution choosing whether to take a job. But I don't want to do any of that. Readers are of course free to consult Narveson's book, free too to consider my arguments against it, and his response to those arguments. But then, I think, enough is enough. Journal pages too are a scarce resource.

One point, though, I feel compelled to make. I wrote that Narveson had treated an argument of Nagel's in a way clearly out of bounds. He now quotes only part of his attack, and asks what he did wrong. Here's the offending passage, which I will again quote in full:

> The moral argument is shabby, corrosive, and so outlandish that it could be offered only by people who already believed in the antecedent justice of taxation for these purposes and are so enamored of the State—as is almost

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Don Herzog, Department of Political Science, University of Michigan, Ann Arbor, MI 48109, telephone (313) 764-6312, telefax (313) 764-3522.

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> everyone nowadays, after forty years of the welfare state—that their moral imaginations have been reduced to pudding.

The bulk of the sentence—everything following "outlandish"—is what I found (and find) offensive. That language looked (and looks) to me like offensive speculation about Nagel's motives and his moral imagination. It's quite true that we need to be able to distinguish robust criticism from invective against persons: that's what Narveson failed to do here.

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Israel M. Kirzner

FRIEDRICH A. HAYEK
1899–1992

A concise obituary evaluation of a scholar of the magisterial caliber of the late Friedrich A. Hayek must necessarily aim to be far less than comprehensive. Hayek's work has been so extensive, both in sheer volume and in the variety of areas explored, that a short essay can hope, at best, only to highlight some selected feature held to be central to that work. Certainly any detailed review of Hayek's personal biography can and must be dispensed with: this scholar's scientific achievements attained an eminence which render the details of his life story, except where they directly contribute to a deeper appreciation and understanding of his work, of distinctly secondary interest.

The present essay has evolved as a result of two observations made concerning the many obituary notices which appeared soon after Hayek's death. First, these notices presented Hayek invariably in terms of his ideological profile. Hayek's eulogists tended to see his scholarly contributions as being primarily important for the support they provided to the political program of classical liberalism. And indeed, while remaining fully aware of the obvious scientific integrity and objectivity of Hayek's work, we must at the same time recognize that very little of his writing is wholly unrelated to his commitment, spanning more than six

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Israel M. Kirzner is professor of economics, New York University, 269 Mercer Street, 7th floor, New York, NY 10003, telephone (212) 998–8900, telefax (212) 995–3932.

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decades, to a societal ideal based on individual rights and limited government. Certainly Hayek's fame in the wider world of lay intellectual opinion rests on this latter circumstance. Therefore, one cannot complain too loudly about the tendency of Hayek's obituaries to highlight his political commitments.

What is less understandable is that the obituary notices have almost invariably ignored or underestimated Hayek's role as a key figure in the twentieth-century history of the Austrian school of economics. This *hiatus* suggests widespread misunderstanding of Hayek's thought. The truth is that very little of his work, both in economics and outside it, can be properly appreciated, *especially* insofar as it relates to his classical liberalism, without recognizing the "Austrian" character of Hayek's economics. The following pages express one economist's appreciation of Hayek's contributions, *qua* economist, to the understanding of how a capitalist society works (and how and why a socialist society does not). We shall find that this contribution is indeed rooted in the economics of the Austrian tradition, and did itself importantly enrich the insights which characterize that tradition. It is precisely this Hayekian version of Austrian economics which constituted the foundation upon which Hayek's celebrated case for classical liberalism has been consistently built. A more extensive and ambitious evaluation might well go on to explore possible problems to be found in Hayek's more recent contributions to social and legal philosophy, which, it might be argued, arose out of his somewhat uncritical extrapolation of these very economic insights to the broader field of social evolution. But, as stated at the outset, a concise evaluation of Hayek must inevitably be a partial one. Moreover, the character of an obituary evaluation justifies, and perhaps even requires, emphasis upon the permanently valuable character of a great scholar's contribution, rather than upon any problematic elements which a critic might claim to perceive within that contribution.

Hayek's Early Contacts with Austrian Economics

Hayek studied at the University of Vienna under Friedrich von Weiser and Othmar Spann—neither of them a shining exemplar, to put it mildly, of classical liberal thought. It was only after having already earned doctorates in law and political science that Hayek was drawn, in the mid-1920s, into the intellectual circle led by Ludwig von Mises (who had in 1922 published the original German language version of *Socialism*, and who had emerged as perhaps the most influential figure in post-World War I Austrian economics). It seems fair to say that it was primarily after this that Hayek's work in the Austrian tradition matured and developed to permit him to be

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recognized, by the early 1930s, as one of the foremost representatives of that tradition. Appointed in 1927 as director of the Austrian Institute for Business Cycle Research, Hayek soon published several books expositing the "Austrian" theory of the business cycle, drawing heavily on Böhm-Bawerkian capital theory, and on Misesian insights in the monetary theory of the trade cycle. These contributions rendered Hayek the foremost exponent of the Austrian cycle theory, and led directly to his 1932 appointment, at an unusually young age, to the prestigious Tooke Chair at the London School of Economics. It was during his years at LSE during the 30s that Hayek was a major participant in celebrated controversies with Keynes, Sraffa and Knight. While these controversies brought Hayek's name into global professional prominence, they also deepened his own appreciation for the methodological *subjectivism* of the Austrian tradition. This appreciation appears to have been even further deepened in the course of Hayek's arguments, during these same years, in support of the position taken by his mentor Ludwig von Mises in the famous debate on socialist economic calculation.

It seems clear that Hayek's participation in this latter debate forced him critically to reassess the most basic conclusions of twentieth-century economic science. The results of this fundamental re-examination appeared in the form of two related strands of contributions. A number of papers emerged which focussed on the role of *knowledge* in market processes, culminating in the 1945 paper "The Use of Knowledge in Society." These papers were to form the core of Hayek's *Individualism and Economic Order* (1949). A second series of papers, published during the war, focused on the role of *subjectivism* in the social sciences, and formed the core of *The Counter-Revolution of Science: Studies on the Abuse of Reason* (1952). Together these two strands of contributions constitute, in this writer's opinion, Hayek's most profound explorations of the foundations of economic understanding. Taken together with Mises's contemporaneous work, these contributions represented a most significant deepening and extension of the subjectivist Austrian tradition. There can be little doubt that it was this work that was responsible both for the fact that Austrian economics survived the midcentury dominance of Keynesian thought, and for the renewed late-century interest in Austrian economics, despite the dominance of neo-classical equilibrium theory. Nor can there be any doubt that it was these early and more narrowly "economic" writings on the importance of knowledge and of subjectivism which nourished Hayek's subsequent scholarly work in social and legal philosophy, and which led to his own deepened commitment to classical liberalism as a political program.

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The Economic Basis of Hayek's Thought

The accepted core of mainstream price theory from which the new Mises-Hayek insights diverged, was not, in principle, entirely incompatible with these insights. The failure of Austrians up until the 1940s to recognize the need for such rebellious insights is no mystery. Mainstream price theory was, at least since Lionel Robbins's 1932 book, *The Nature and Significance of Economic Science,* clearly seen as rooted in the interaction of individual buying and selling decisions. But the increasing formalization of economics (and especially of the model of perfect competition), and the absorption of Walrasian insights, were converging during the 30s and 40s to render mainstream microeconomics primarily a theory of perfectly competitive market equilibrium. Such a theory, embodying in particular the assumption of perfect information, tended to divert attention away from the subjective elements in individual decisionmaking, from the role of knowledge, ignorance, and uncertainty in the sets of decisions being made, and from the attendant complications surrounding the interactions among decisions. Increasingly it became easy to think of market-clearing prices as being impersonally determined by costs and utility functions, with both of these being perceived "objectively," rather than as colored by the knowledge, expectations, and doubts of decision makers. The mathematics of equilibrium configurations made it appear that market prices are wholly determined by given technological production functions and preference patterns, as if without any intermediation by human, error-prone, market participants. In particular the price theory of the 30s and 40s had left little room for any entrepreneurial role. That theory was virtually confined to the analysis of equilibrium states, in which no profit opportunities exist to be grasped by the entrepreneur. The decisions made under such postulated conditions were seen as informed by perfect knowledge somehow acquired before the economic analysis even begins. The global efficiency thought to characterize the fully employed competitive economy came to be seen as implicit in the configuration of interlocking markets, each in perfectly competitive equilibrium. The allocative efficiency perceived to emerge from this hypothesized equilibrium configuration of markets presupposed a level of information-perfection that was mind-boggling in its completeness and intricacy, and sets of mutually sustaining decisions somehow—quite inexplicably—perfectly prereconciled before market activity itself began.

It was against this perhaps only dimly discerned core of neoclassical price theory—a core that has, in the half century since then, become carefully and explicitly articulated in mainstream economics along precisely these lines—that Mises and particularly Hayek reacted in the fourth

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and fifth decades of the century. For both of these Austrian scholars, economic theory needed the injection of a wholesome dose of subjectivism, above and beyond the mainstream's acknowledgement of the subjectivism of preferences. For Mises this new subjectivism involved the recognition of the active role of entrepreneurial minds hammering out prices by negotiating in non-equilibrium settings. For Hayek it took the form of a brilliantly unorthodox emphasis on the importance of the knowledge upon which market decisions must be based.

Hayek's recognition of the crucial importance of knowledge in market processes was arrived at in two stages. In his famous 1937 paper "Economics and Knowledge," Hayek (a) interpreted market equilibrium constructs as formalizations of the assumption of complete mutual knowledge on the part of market participants, and (b) demonstrated that hypothesized equilibrating market processes must consist of specific patterns of mutual *learning*. In his aforementioned 1945 paper, "The Use of Knowledge in Society," Hayek identified positive and normative implications of the circumstance that the sum total of knowledge available in society "never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all separate individuals possess."[1]

That Hayek recognized the deepened subjectivism embodied in these insights is clearly seen in his discussions in *The Counter-Revolution of Science*. There he writes of "the more complex phenomena with which economic theory is concerned and where in recent years progress has been particularly closely connected with the advance of subjectivism." In particular he cited "the new problem of the compatibility of intentions and expectations of different people, of the division of knowledge between them, and the process by which the relevant knowledge is acquired and expections formed."[2]

It was of course in the Austrian tradition that subjectivism in economic thought had, since 1871, received its clearest emphasis. In identifying his own insights concerning knowledge as embodying an extension of subjectivism, Hayek was consciously advancing that Austrian tradition. But, as later developments in doctrinal history were to reveal, he was advancing the Austrian tradition in yet a different sense, of which he himself could hardly have been aware. His subjectivist advances were helping to lay the groundwork for the subsequent rediscovery, within the economics profession in the last quarter of the century, of the richness of the Austrian tradition in economics, and of its capacity to provide satisfying explanations for phenomena left unexplained by mainstream theory. We have not yet seen the full extent of the impact of this rediscovery; but the contribu-

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tion to it made by Hayek's scholarly work of the 1930s and 1940s is one which deserves recognition and appreciation.

From Economic to Social Theory

These insights concerning the role of knowledge in economic processes enabled Hayek to appreciate more deeply the nature of *spontaneous coordination* and its place in the history of economic thought. Particularly against the background of the socialist calculation debate, it became apparent to Hayek that the coordinative properties of markets is made possible by delicate webs of mutual discovery which no single mind could simulate or duplicate. It was not so much that this recognition exposed the fallacies underlying socialist dreams of efficient central planning. More importantly, Hayek realized that coordinative market processes involve the utilization of scattered information which could not, even in principle, be imagined to inform any one decision maker. Hayek was to take this fundamental economic insight and apply it to illuminate spontaneous social processes of all kinds. Hayek's deep and extensive investigations during the 1950s, 60s and 70s into the literatures of the philosophy and history of law, and of political and social philosophy, were guided by this central insight. Hayek's understanding of the meaning of spontaneous social coordination was the basis for his critique of constructivist fallacies, the error of believing that institutions and outcomes which emerge spontaneously through mutual discovery, can in principle be arrived at by deliberate design. Clearly Hayek's classical liberalism came, in his mature years, to reflect more and more predominantly the consistent application of this understanding.

Hayek's mature appreciation of a society built on the foundations of individual rights, the rule of law, and limited government can thus be traced directly to his own extension of the subjectivism of the Austrian tradition in economics. It must be emphasized that the economic understanding of markets which emerges from the Austrian tradition differs sharply from the understanding of markets which informs the minimal-statist position of many mainstream economists. Such emphasis is perhaps all the more needed because certain elements of the Hayekian understanding have (especially since Hayek's Nobel prize in 1974) been absorbed into non-Austrian, mainstream thinking. It is now commonplace, in mainstream expositions of the working of markets, to cite Hayek as having taught economists to see prices as signals communicating the information needed for social coordination of individual decisions efficiently and economically. The beauty of the price system, according to this mainstream argument for unhampered markets, consists in its ability, without central

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direction, to generate mutually dovetailing sets of decisions. Without requiring the necessary information to be concentrated in any single mind, markets are able to stimulate independent agents to act in precisely that manner that will permit their plans to be carried out without disappointment and without regret, since the necessary information is transmitted to the relevant agents by prices. While there *is* some basis for such a reading of Hayek, we must insist on a more careful interpretation of his position—one much more consistent with his Austrian subjectivism.

The more careful interpretation (confirmed in Hayek's 1968 paper, "Competition as a Discovery Procedure")[3] draws attention not so much to the capacity of prices to communicate *accurate* information, as to the capacity of prices to alert market participants to the need for *better* information. While accurate information is expressed only through equilibrium prices, the beauty of the price system, in Austrian eyes, consists in the potential of *dis*equilibrium prices to stimulate discovery and overcome existing ignorance. Spontaneous coordination, in this view, consists not so much in the possibility of a pattern of fully coordinated decisions without central direction, as in the *discovery procedure* spontaneously generated by initially erroneous patterns of decisions. It is in the market process of spontaneous learning that the Austrian view places the importance of Hayek's insights concerning dispersed knowledge. It is in this process that Austrian economists find the scope for the critically important role of entrepreneurial discovery and innovation. And it is in this entrepreneurial role, necessarily absent from the centrally planned socialist economy, that Austrian economists see the unique capacity of the market economy to achieve social coordination and prosperity.

* * *

Hayek's scholarly career is remarkable, even extraordinary, in a number of respects. There can be few other examples of such consistently superior intellectual labor sustained for over six decades. Nor can there be many examples of scholars whose work has been so influential in so many diverse fields of social research, including economics, political and legal philosophy, and psychology. In economics itself Hayek's bibliography includes now-classic works in monetary theory, business cycle theory, capital theory, doctrinal history, the theory of socialist planning and economic methodology.

The preceding pages have attempted to identify what this writer believes to be the central thread inspiring much, if not most, of this prolific scholarship. This central thread, we have argued, has nourished not only Hayek's work in economics, but also much of his work in political and legal philosophy. It has, we maintain, supported his mature views on the

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social usefulness of societal arrangements based on limited government, the rule of law, and secure individual rights. It should be no surprise to discover that this central thread derives from that Austrian tradition in economics in which Hayek was steeped in the foundational years of his career. When we recall Hayek's oft-quoted statement "that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism,"[4] we can appreciate how Hayek's own life's work must be seen as a giant "further step" in that very direction.

NOTES

1. F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 194), 77.
2. Hayek, *The Counter-Revolution of Science* (Glencoe, Ill.: The Free Press, 1952), 33.
3. Hayek, "Competition as a Discovery Procedure," in id., *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago: University of Chicago Press, 1978), 179–90.
4. Hayek, *The Counter-Revolution of Science,* 31.

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M. L. Rantala

GEORGE STIGLER
1911–1991

George Stigler, the winner of the 1982 Nobel Prize in economics, died on December 1, 1991 a few weeks short of his 81st birthday.

Stigler was born on January 17, 1911 in Renton, a suburb of Seattle, Washington. His father, Joseph Stigler, emigrated to the United States from Bavaria; his mother, Elizabeth Stigler (neé Hungler), emigrated from Hungary. They met in the U.S. George Joseph Stigler was their only child.

Stigler received a Bachelor's degree from the University of Washington in 1931 and an M.B.A. from Northwestern University in 1932. At Northwestern, his interest in economics was stimulated by his teacher Coleman Woodbury; he began studying economics at the University of Chicago in 1933. His teachers at Chicago included Frank Knight, Jacob Viner, and Henry Simons. His fellow students included Milton Friedman, W. Allen Wallis, Kenneth Boulding, Sune Carlson, and an undergraduate, Paul Samuelson. Samuelson, another Nobel laureate, has credited Stigler and Wallis with convincing him to study advanced mathematics and become a mathematical economist. Stigler received his Ph.D. in economics in 1938.

In 1936 he married Margaret L. Mack, a fellow student Stigler had met at the University of Chicago's International House. Stigler and his wife, known as "Chick," had three sons: Stephen, a professor of statistics at the

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M.L. Rantala, Department of Economics, University of Chicago, 1126 East 59th Street, Chicago IL 60637.

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University of Chicago; David, a lawyer in Connecticut; and Joseph, a businessman in Toronto. Chick died in 1970.

In 1936 Stigler began teaching at Iowa State College, in the economics department chaired by T.W. Shultz. In 1938 Stigler accepted an offer to teach at the University of Minnesota. In 1942 he left Minnesota on a leave of absence to work at the National Bureau of Economic Research (NBER) in New York. It was there that he acquired an interest in empirical economics. He later joined Milton Friedman and Harold Hotelling at the Statistical Research Group, where they were engaged in the statistical analysis of military problems under the direction of W. Allen Wallis.

Stigler returned to the University of Minnesota in 1945, along with Milton Friedman, but by 1946 Stigler left to take a position at Brown University, while Friedman went to the University of Chicago. The next year Stigler joined the faculty of Columbia University, where he taught for eleven years.

In 1958 Stigler became the Charles R. Walgreen Distinguished Service Professor at the University of Chicago. He became an editor of *The Journal of Political Economy* in 1974 and director of the Center for the Study of the Economy and the State at the University of Chicago in 1977. He received the National Medal of Science in 1987. His Nobel Prize was awarded for "his seminal studies of industrial structures, functioning of markets, and causes and effects of public regulation." He continued to teach and write at Chicago until his death.

Economic Theory

One of Stigler's most enduring contributions to economics was his price theory text, first published under the title *The Theory of Competitive Price* in 1942.[1] Considered one of the first modern textbooks in microeconomics, it was revised several times—as *The Theory of Price*—and it remains an important reference for advanced students of economics.[2]

Stigler regarded economic theory as a powerful tool to explain behavior but believed that theory should not be divorced from empirical tests; logical consistency is insufficient. In analyzing the theoretical issue of subsistence, he gathered data to test his theory and became one of the first economists to employ linear programming.[3]

Perhaps his most controversial contribution to economic theory was the article "De Gustibus Non Est Disputandum," co-written with University of Chicago economist Gary Becker.[4] The article opened in the bold and witty style which characterized Stigler's writing:

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> Our title seems to us to be capable of another and preferable interpretation: that tastes neither change capriciously nor differ importantly between people. On this interpretation one does not argue over tastes for the same reason that one does not argue over the Rocky Mountains—both are there, will be there next year, too, and are the same to all men.[5]

Stigler and Becker proposed that differences in behavior across individuals are due to price or income differences. Thus they proposed a general theory of utility-maximizing behavior which did not require the usual qualification that tastes remain the same, by partly translating unstable tastes into variables in the household production functions for commodities.[6] They provided an early exposition of the economic theory of addiction, to which Becker would later return, and also used their model to explain habitual behavior, advertising, and fashions.

History of Economic Thought

Stigler's lifelong interest in the intellectual history of economics was an important factor in keeping this branch of the discipline alive during the latter part of the twentieth century. His interest in the history of economics began with his doctoral dissertation, written under the supervision of Frank Knight. An analysis of the economic doctrines of the late nineteenth century, it was published in 1941 under the title *Production and Distribution Theories*.[7]

Stigler's first published contribution to the history of economic thought, however, had been his very first publication: an article in *The Journal of Political Economy* in 1937 entitled "The Economics of Carl Menger."[8] Menger, Walras, and Jevons were famous for independently developing marginal utility theory, but Stigler analyzes Menger's unique contributions. While Menger was correct that costs never have a direct effect on value, Stigler points out that Menger erred by not realizing that in the long run costs have "at least a co-ordinate importance in determination [of value], and in the limiting case of constant costs they are completely dominant."[9] Stigler praises Menger for being the first economist to introduce both the vital methodological tool of the static assumption[10] and the law of proportionality or substitution, which states that the proportions in which productive elements may be combined to secure the same output are not fixed.[11]

Stigler brought to his study of the history of economic doctrines his opinion that economic theories require empirical investigation to determine their validity. He was thus able to shed light on many controversies which had persisted since the time of Adam Smith. In his essay "Ricardo

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and the 93 Per Cent Labor Theory of Value," he traces the misunderstanding of Ricardo's theory from the date Ricardo's *Principles* was published to the present.[12] While most economists (then and now) hold that Ricardo definitely held a labor theory of value, Stigler claims that this classical economist did not have an analytical labor theory but "an empirical labor theory of value, that is, a theory that the relative quantities of labor required in production are the dominant determinants of relative values."[13] Stigler maintains that the widely held but incorrect view of Ricardo was due to the failure of economics to make the important distinction between analytical and empirical propositions.

Stigler also devoted considerable study to Adam Smith. Although throughout Stigler's lifetime Edwin Cannan's edition of the *Wealth of Nations* remained a popular choice for scholars, Stigler edited an abridged edition of Smith which was in use for decades.[14] In his article, "The Division of Labor is Limited by the Extent of the Market,"[15] Stigler addresses the conundrum created by Smith: either specialization will lead to industry monopolization or Smith's theorem on the division of labor is wrong. Stigler shows that neither of these positions is correct. Rather, Smith's theorem is an incomplete description of the division of functions in markets; there are always some functions with diminishing returns, and this limits firm size. This insight was considered not only an important contribution to Smith scholarship, but useful to the contemporary study of industrial organization.

In "Perfect Competition, Historically Contemplated,"[16] Stigler traces the history of the notion of perfect competition from Adam Smith to Frank Knight. He concedes that the modern definition has become so severe that it is unrealistic. But he defends this definition, arguing first that scientific generalizations are by necessity abstract, and second that this particular generalization has stood the test of time: economists actually prefer this model to the rival doctrines of monopolistic competition and imperfect competition which have been examined by the profession since the 1930s. In his autobiography Stigler relates the story of how, flying from Washington, D.C. to New York, he found himself seated next to Edward Chamberlin, author of the monopolistic competition model. Chamberlin began the conversation by saying, "You and Professor Knight are the two most mistaken economists I know on the subject of monopolistic competition." Stigler was grateful the journey was a short one.[17]

Stigler analyzed the economic ideas of the Fabians in his essay "Bernard Shaw, Sidney Webb, and the Theory of Fabian Socialism."[18] Bernard Shaw became convinced of the need for economic reform after hearing a lecture by Henry George and then reading George's *Progress and Poverty*. Further reading led Shaw to Marx. While Shaw rejected much of Marx, particu-

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larly his value theory, he embraced George's idea that private property in land results in unacceptable inequalities. Stigler analyzes some of the data for the period and concludes that rent on land during the late nineteenth century was not one-sixth of England's income as the Fabians claimed, but only about 5 percent, and had been declining for most of the century. The Fabians extended George's analysis to capital and interest, but Stigler shows this extension of rent theory to be invalid, and concludes that like many popular reformers, the Fabians were poor economists. Moreover, Stigler points out, the shift from laissez faire to collectivism in England began well before the formation of the Fabians in the 1880s, suggesting that their influence has often been overstated, and that their case exemplifies the fact that social issues are often the creation of intellectuals rather than reflections of actual conditions.

Stigler was a pioneer in the empirical study of the history of economic thought. In "Statistical Studies in the History of Economic Thought"[19] he uses citation analysis to discover that during the eighteenth century, no one specialized in economic writing but that by the twentieth-century, writing about economic affairs was dominated by specialists in economics. This work also traces the rise of work written in English and the shift to increased use of mathematical techniques. In collaboration with Claire Friedland, he extended his analysis of citation practices to twentieth-century economists and doctoral students. Their research provides an empirical basis for concluding that quality of work plays an important role in influencing other economists,[20] and that clearly measurable differences in attitudes to various economic scholars is evident among universities, with faculty from a dissertation writer's own institution given strong preference over other writers.[21]

Stigler often combined his interest in other aspects of economics with his study of the history of economics. In "The Economist and the State" he shows that the classical economists *opposed* many forms of government but neglected to provide either empirical or theoretical grounds for such rejection.[22] He chides many modern economists for reversing field: *advocating* interventionist policies without giving empirical or theoretical bases for their recommendations.[23]

The Economics of Information

Stigler's most famous contribution was his "discovery" of the economics of information. In "The Economics of Information" he explains that price dispersion exists because market agents do not have perfect knowledge.[24] Obtaining price information is costly and a rational producer or consumer will only engage in a "search" for information up to the point where the

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marginal cost of the information is equal to the marginal expected gain from obtaining the information. This search model provides a clear theoretical explanation for behavior which had already been observed or had seemed reasonable, but it provides some nonobvious insights as well: Those whose time is more highly valued by the market will search less, and those with a low time-value will search more; the greater the dispersion of prices for the commodity desired, the greater the gains from searching; knowledge depreciates so that goods which are bought often will vary less in price than goods of the same value which are bought less often; consumers with less experience in searching a market will generally end up paying higher prices, explaining the well-known phenomenon that tourists pay more.[25] Stigler's work led to extensive work by others in this field who examined such issues as the form of actual price distributions and the possibilities of asymmetries in information held by market agents. But his main thesis, that information is an economic good which rational agents obtain at cost, remains a powerful contribution to economic theory.

The Organization of Industry

One of Stigler's early contributions to the field of industrial organization appeared in "The Economies of Scale," where he advances the notion of "the survivor technique."[26] This argument from Darwinian logic suggests that if you examine an industry over time you will find that the firm sizes that are successful (survivors) are the ones which are run well. Thus the survivor technique can determine the optimum firm size for a particular industry. Stigler's method is to organize firms in an industry by size and determine the share of industry output produced by each size class over time. If the share of a class rises it is relatively efficient, and if it falls it is relatively inefficient. In the industries he examined he found that there was not a single efficient size, but a range of efficient sizes. He suggests that this finding is further supported by the fact that increases in industry demand are significantly met by the expansion of existing firms, rather than by increases in the number of firms proportional to the demand increase.

In "A Theory of Oligopoly," Stigler pointed out that because cartels are formed to charge prices above marginal cost, any member of the cartel can benefit by secretly cutting his cost to lure buyers from other members of the cartel. Neither the cheating oligopolist nor the benefiting customer have an incentive to disclose this arrangement. But this makes conspiracies hard to establish and weak if they are formed.[27]

Stigler examined numerous aspects of the economics of industries, including mergers, administered prices, patents, and even the block book-

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ing of movies at theaters.[28] But one of his most important contributions resulted from an extensive study of antitrust legislation. In "The Economic Effects of the Antitrust Laws"[29] he found that the Sherman Act had only a small effect in reducing industrial concentration, but he acknowledged the difficulty of firmly establishing this claim.[30]

The Theory of Economic Regulation

Stigler and Milton Friedman were both at the University of Minnesota in 1946, and they published a short book entitled *Roofs or Ceilings?* which shows that rent controls distort rental markets and lead to misallocations of space.[31] While this work was attacked at the time of publication, its analysis is now nearly universally accepted by professional economists.

In a similar vein, "The Economics of Minimum Wage Legislation" was one of the earliest economic criticisms of this attempt at reducing poverty.[32] Stigler admonishes other economists for not being concerned with the issue and suggests that economists should strongly denounce the legislation, since minimum wage laws not only fail to reduce poverty but distort the efficient allocation of resources, reduce employment, and result in lower aggregate output. His theoretical conclusions have since been supported by empirical studies and the analysis presented in this essay is now a staple in introductory courses in economics. This was one of many articles in which Stigler pointed out that the intention of positively influencing behavior is not sufficient to guarantee the outcome.

"What Can Regulators Regulate: The Case of Electricity," by Stigler and Claire Friedland, is an empirical study of electrical rates charged by regulated and unregulated electrical utilities.[33] They found that regulation had no significant effect on prices. This constituted a serious criticism of the approach to regulation taken by political scientists, who often assumed that regulation was in the public interest. In works like "The Theory of Economic Regulation" Stigler showed that regulators act in their own interest, which often coincides with the interests of the parties they are regulating.[34] Thus Stigler can be seen as one influence in the development of the public choice school of economics (most widely associated with Nobel prize-winner James Buchanan and his frequent collaborator Gordon Tullock).

Public Choice

Stigler compares participation in the market with voting for political parties in his essay "Economic Competition and Political Competition."[35] He claims that various communities compete with each other for residents

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and businesses through the taxes the communities choose to charge and the services they offer. He rejects the idea that elections reflect all-or-nothing results: while a party receiving 49 percent of the vote loses and a party receiving 51 percent wins, the loser can affect the policy of the winner. This analysis helps to explain the rationality of voting, since casting a "losing" vote can influence future policy.

Aaron Director was a long-time friend of Stigler and an economist at the University of Chicago Law School. He was a gifted teacher with many insights into economics, but did not record many of his ideas in writing. Because he continually refused to publish his theory of income redistribution, Stigler published the theory for him in "Director's Law of Public Income Redistribution." Director's theory was that public expenditures are made primarily for the benefit of the middle classes—farm policy, higher education, social security, and the like—and are paid for by taxes on the poor and rich.[36]

The Role of Ideas

While Stigler would no doubt have accepted that as an economist he had had some influence on his profession, in his essay "Do Economists Matter?" he wrote that economists themselves "exert a minor and scarcely detectable influence on the societies in which they live."[37] He argues that economic reform, such as the repeal of the Corn Laws, was due not to the exertions of members of the Anti-Corn Law League but was the result of a shift in political and economic power. As the emerging industrial class grew, the benefits of free trade grew in relation to national income, and this naturally led to the repeal of the Corn Laws.[38]

On the issue of affecting public opinion, Stigler sees the economist, more often than not, as the follower and not the leader. Concern with pollution, he notes, preceded the application of the theory of external diseconomies to the problem.[39] He can find no regulatory policies which were introduced in response to a problem discovered and popularized by economists and he sees the economist often serving simply as a spokesman for interest groups.[40]

It seems possible that one application of his own theory of information would suggest that economic agents are not always fully informed on the intellectual issues of the day and may choose to economize on knowledge acquisition by trusting specialists, such as Cobden (on free trade) or Stigler (on antitrust). Stigler's friend and colleague Milton Friedman has written popular works on economics in order to influence the debate on the role of the state in economic affairs. According to Friedman, Stigler often said, "Milton wants to change the world; I only want to understand it."[41]

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NOTES

1. George J. Stigler, *The Theory of Competitive Price* (New York: Macmillan, 1942).
2. George J. Stigler, *The Theory of Price* (New York: Macmillan, 1946); *The Theory of Price*, rev. ed. (New York: Macmillan, 1952); *The Theory of Price*, 3rd ed. (New York: Macmillan, 1966); *The Theory of Price*, 4th ed. (New York: Macmillan, 1987).
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5. Ibid., 76.
6. Ibid., 89.
7. George J. Stigler, *Production and Distribution Theories* (New York: Macmillan, 1941).
8. George J. Stigler, "The Economics of Carl Menger," *Journal of Political Economy* 45, no. 1 (April 1937): 229–50.
9. Ibid., 243.
10. Ibid., 235.
11. Ibid., 243.
12. George J. Stigler, "Ricardo and the 93 Per Cent Labor Theory of Value," *American Economic Review* 68, no. 3 (June 1958): 357–67, reprinted in *Essays in the History of Economics* (Chicago: University of Chicago Press, 1965).
13. Ibid., 361 (page 333 in *Essays*).
14. George J. Stigler, ed., *Selections from "The Wealth of Nations"* (New York: Appleton-Century-Crofts, 1957).
15. George J. Stigler, "The Division of Labor is Limited by the Extent of the Market," *Journal of Political Economy* 59, no. 3 (June 1951): 185–93, reprinted in *The Organization of Industry* (Chicago: University of Chicago Press, 1968).
16. George J. Stigler, "Perfect Competition, Historically Contemplated," *Journal of Political Economy* 65, no. 1 (February 1957): 1–17, reprinted in *Essays in the History of Economics.*
17. George J. Stigler, *Memoirs of an Unregulated Economist* (New York: Basic Books, 1988), 58n.
18. George J. Stigler, "Bernard Shaw, Sidney Webb, and the Theory of Fabian Socialism," *Proceedings of the American Philosophical Society* 103 (June 1959), reprinted in *Essays in the History of Economics.*
19. George J. Stigler, "Statistical Studies in the History of Economic Thought," in *Essays in the History of Economics.*
20. George J. Stigler and Claire Friedland, "The Pattern of Citation Practices in Economics," *History of Political Economy* 11 (1979), reprinted in Stigler, *The Economist as Preacher and Other Essays* (Chicago: University of Chicago Press, 1982).

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21. George J. Stigler and Claire Friedland, "The Citation Practices of Doctorates in Economics," *Journal of Political Economy* 83 (1975), reprinted in *The Economist as Preacher.*
22. George J. Stigler, "The Economist and the State," *American Economic Review* 55, no. 1 (March 1965): 1–18. This was the presidential address delivered at the Seventy-seventh Annual Meeting of the American Economic Association, Chicago, December 29, 1964, reprinted in *The Economist as Preacher.*
23. "The basic role of the scientist in public policy, therefore, is that of establishing the costs and benefits of alternative institutional arrangements. Smith had no professional right to advise England on the Navigation Acts unless he had evidence of their effects and the probable effects of their repeal. A modern economist has no professional right to advise the federal government to regulate or deregulate the railroads unless he has evidence of the effects of these policies." Ibid., 2.
24. George J. Stigler, "The Economics of Information," *Journal of Political Economy* 69, no. 3 (June 1961): 213–25, reprinted in *The Organization of Industry.*
25. Ibid., passim.
26. George J. Stigler, "The Economies of Scale," *Journal of Law and Economics* 1 (October 1958), reprinted in *The Organization of Industry.*
27. George J. Stigler, "A Theory of Oligopoly," *Journal of Political Economy* 72, no. 1 (February 1964), reprinted in *The Organization of Industry.*
28. George J. Stigler, "Mergers and Preventive Antitrust Policy," *University of Pennsylvania Law Review* 104, no. 2 (November 1955). Id., "Administered Prices and Oligopolistic Inflation," *Journal of Business of the University of Chicago* 35, no. 1 (January 1962). Id., "A Note on Patents," *The Organization of Industry.* Id., "A Note on Block Booking," in Philip B. Kurland, ed., *The Supreme Court Review* (1963). All these essays appear in *The Organization of Industry.*
29. George J. Stigler, "The Economic Effects of the Antitrust Laws," *Journal of Law and Economics* 9 (October 1966), reprinted in *The Organization of Industry.*
30. "Discussions of methodology are usually offered as a substitute when an author has lacked the imagination to devise strong tests and the diligence to compile a large body of evidence, and I apologetically follow this tradition. I do not claim that any reasonable man must accept the above conclusions, for even the strongest (on the effects of the antimerger statutes) is not overpowering in the volume or pointedness of the evidence. I do claim that each of the findings is improvable, and the extension of this work will shrink the range of defensible conclusions." Stigler, "The Economic Effects of the Antitrust Laws," *The Organization of Industry,* 271.
31. George J. Stigler and Milton Friedman, *Roofs or Ceilings?* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1946).
32. George J. Stigler, "The Economics of Minimum Wage Legislation," *American Economic Review* 36, no. 3 (June 1946).

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33. George J. Stigler and Claire Friedland, "What Can Regulators Regulate: The Case of Electricity," *Journal of Law and Economics* 5 (October 1962): 1–16.
34. George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2, no. 1 (Spring 1971).
35. George J. Stigler, "Economic Competition and Political Competition," *Public Choice* 13 (Fall 1972).
36. George J. Stigler, "Director's Law of Public Income Redistribution," *Journal of Law and Economics* 13, no. 1 (April 1970): 1–10.
37. George J. Stigler, "Do Economists Matter?" *Southern Economic Journal* 42 (January 1976), reprinted in *The Economist as Preacher*, 63.
38. "If Cobden had spoken only Yiddish, and with a stammer, and Peel had been a narrow, stupid man, England would have moved toward free trade in grain as its agricultural classes declined and its manufacturing and commercial classes grew. Perhaps a few years later, but not many." Ibid., 64.
39. Ibid., 66.
40. "My friend Robert Fogel has told me that I am a Marxist, perhaps partly because of the role I assign to intellectuals as spokesmen of important groups within the society. My reply is that if I were a Marxist, Karl would not be a very good one. His acid-filled pen was indeed thrown often at the apologists of capitalism and earlier systems. The unrighteous indignation aside, I accept the view that Smith was the honorable spokesman for the agricultural and worker classes of England, as well as the premier economist of all time. But Marx, with unbelievable vanity or myopia, excused himself and his doctrines from this description, whereas on my view he was obviously the spokesman for rising industrial proletariat, as well as a premier sociologist. I do not believe that every view of every person is market-oriented—indeed I am not able wholly to explain the views I am presenting here on this basis. And markets for opinions are also provided by non-economic classes, such as religious groups, contrary to Marx's view. If the view that people produce what consumers desire needs a name, that of Smith is more appropriate than that of Marx." Ibid., 63
41. Milton Friedman, "George Stigler, Economist Extraordinaire," *The Chicago Maroon*, January 10, 1992: 16.

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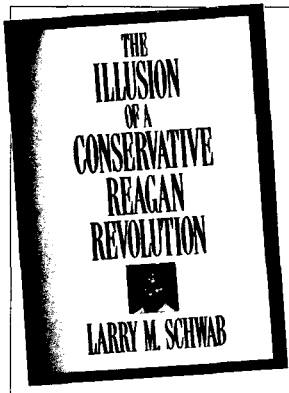

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